

April 23, 1947

DRAFT OUTLINE NOTES FOR MR. ACHESON'S SPEECH
BEFORE THE DELTA COUNCIL, MAY 8.

Nearly two months ago President Truman appeared before a joint session of Congress and enunciated a policy of aid to free peoples who are seeking to work out their destinies free from coercion or subjugation by armed minorities. The immediate focus of the President's concern was the situation in Greece and Turkey. But it was widely recognized that the issues involved extended far beyond Greece and Turkey.

The overwhelming majority by which the President's policy has been approved by Congress, the bi-partisan nature of that majority, and the speed with which Congress has acted--all of these are clear proofs to the world that a democracy, our democracy, is capable of carrying out an effective and responsible foreign policy, and of discharging its responsibilities as a world leader.

In its wider context the President's policy means that it is this Government's intention to seek through a judicious use of its economic resources to help lay a basis for political stability in the world. For unless a genuine political stability is achieved, the world can hardly get going successfully upon a program of economic reconstruction. And unless we have economic reconstruction, we can have no peace, or continued prosperity

in the United States.

A government has three principal instruments short of armed force for carrying into effect its foreign policy. The first is diplomacy or negotiation. The second is economic power. And the third is persuasion of foreign public opinion by means of a program of international information and cultural relations.

The United States has been using the instrument of diplomacy overtime in the last few years. Of the ____ months that have elapsed since VE day, the Secretary of State has been absent from his desk for ____ months attending international conferences. Certain things have been accomplished, but I think we must admit frankly that our negotiations have been without marked success in achieving that political stability which is necessary for world economic reconstruction. We have not been fully successful in building through diplomacy alone that mutual confidence and trust and cessation of expansionism that must be the foundation for political stability and for the success of the United Nations.

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It has become necessary, therefore, and it will probably continue to be necessary for some time to come, to buttress diplomacy by stepping up the use of the economic resources and power of the United States to help create a

basis for political stability--to help create conditions in the world in which the United Nations can grow and increase in authority over a period of years.

The use of economic power of the United States to achieve broad political ends in no new policy. We have always used our economic power for political ends in the national interest. It is only common sense to do so. But for several reasons it has recently become necessary to increase our use of economic power in support of our foreign policy and to announce that increased use publicly. (Elaborate). This implies no disrespect for the United Nations, on the contrary..... It merely means that the United States has a new position of responsibility in the world and is obliged to discharge that responsibility in the interest of peace and stability.

The question has often been raised whether our program of aid to Greece and Turkey sets a pattern for aid to other countries in case of future requests for American assistance. The answer given by spokesman for the Department of State has consistently been that any requests of foreign countries for aid will have to be considered according to the circumstances of each individual case. In another case we would have to study whether the country in question really needs assistance, whether its request is consistent with American foreign policy, whether the request for assistance is sincere,

and

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and whether assistance by the United States would be effective in meeting the problems of that country. Our position has been that it cannot be assumed that this Government would necessarily undertake measures in any other country identical, or even closely similar, to those proposed in Greece and Turkey. But we have never sought to conceal the probability that there would be additional requests from other countries for American aid, or that in such instances it would be in the national interest to consider those requests sympathetically.

Today it is clear that there are going to be many further calls for American aid.

(A) The recovery of Europe and Asia is not going to be nearly as fast as has generally been supposed.

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1. There has been an over-optimism. It has been overlooked that even after World War I, it was only in 1925 that the world arrived at a reasonable level of economic activity and finished clearing away the debris of war. But World War II was many times more destructive. In this war, nations planned on a vast scale the destruction of the enemy's economic capacity--with enormous success in terms of devastation. (See Thorp's speech.)

2. The margins of national subsistence have been so narrow throughout the world that phenomena such as blizzards, floods, and droughts have been sufficient to upset completely any time-table of reconstruction. Such disasters--which countries might ordinarily take in their stride--have occurred in England, France, and elsewhere with the result that funds and resources earmarked for reconstruction have had to be used for consumption, to sustain life, thus setting back reconstruction. Moreover, many foreign countries have been so weakened by the war that loss of resources in this manner cannot be replaced--and further progress toward reconstruction will depend upon outside aid.

3. Political instability has made progress towards reconstruction difficult or impossible in many areas. European recovery is in the end dependent in large measure upon revival of German production and industry.

(B) Further extensive economic and financial aid over a period of years, is going to be necessary if the world is to achieve economic viability and political stability.

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If that aid is not forthcoming, economic collapse will probably be the result in many areas of the world. This in turn will lead to increased

social and political unrest, and an increase in extremism and a decline in respect for democratic institutions and processes, and in the growth and spread of totalitarianism.

I think the people of the United States will agree that nothing could be more dangerous to the national interest and security than such an eventuality, and that they will agree to extend whatever aid may be necessary to prevent it. The fundamental issues of peace and war are involved.

Much of this aid may be channeled through the United Nations and its various agencies, but in the end, the bulk of this aid must come from the United States if it is to be forthcoming. Why?

(C) The balance of payments problem.

The world balance of payments problem is largely a problem of finding enough U. S. dollars to buy the commodities needed for subsistence and reconstruction. There is hardly a country in the world that does not import from the United States, and that does not need to import from the United States, either for subsistence or reconstruction purposes, more than it is able to export to this country.

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In 1947 the United States will export to the rest of the world \$16.2

billions

billions of goods and services, taking into consideration existing and probable foreign financial commitments. The United States will import in 1947 only \$8.7 billions of goods and services. In 1947 the United States will thus be financing the rest of the world to the extent of \$7.5 billions. Only about \$450 millions of this \$7.5 billions will be financed by private loans or credits. Most of the balance will be financed by the United States Government (\$4.8 billions) and out of cash and gold holdings of foreign buyers (\$1.2 billions). The International Bank will provide about \$300 million, and private remittances about \$750 million.

The volume of United States Government foreign financing will, however, under present programs and policies, taper off rapidly during the latter part of 1948 and 1949. Similarly, the ability of foreign purchasers to finance United States exports out of gold and dollar holdings will diminish rapidly as these reserves are drawn down. The volume of private remittances may also be expected to decline.

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These factors will be offset only in small part by International Bank financing, by some net increase in private loans and short-term loans and credits, and by an increase in United States imports. Even if the

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International Bank were able to increase its activities so as to finance a substantial part of foreign needs, the dollars would in the end have to come primarily from the American market; that is to say, the International Bank would have to float its securities for these purposes primarily in the American market. For it is dollars that the world needs in order to buy American products. The basic problem is the enormous disparity between the productive facilities of the United States and those of the rest of the world. The American productive plant is the only important one to come through the war without major damage. That is why it is our responsibility today to take steps to even up this disparity through aiding foreign economies to get on their feet.

The conclusion is inescapable that, under present programs and policies, the world will not be able to continue to buy United States exports at the 1946-47 rate beyond another year or year and a half; and that if they are not able to buy such exports at least at the 1946-47 rate, economic reconstruction and in many cases subsistence will be difficult or impossible. It is also clear that there are no major sources of credits or supplies other than the United States to which the needy countries can turn to meet the bulk of their balance of trade deficits and reconstruction and development needs.

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We in the United States set enormous store by the preservation of democratic institutions, free enterprise, and liberal commercial policies throughout the world. We must face the facts that unless we adopt economic policies and commercial policies appropriate to world need, the survival of these conditions and institutions abroad will be extremely difficult if not impossible.

We must also face the fact that a large part of our economic help for the next few years must be in the form of gifts rather than loans. Loans would merely saddle these slowly reviving countries with debt payments that would strangle international trade for an indefinite period to come.

All of this also implies that the United States must take as large a volume of foreign imports in payment for our exports to those countries as is possible. It would be a stupid policy indeed were this country to refuse payment in imported commodities for funds that must be in any case made available to foreign countries if international anarchy is to be avoided.

(D) If our foreign markets were to be cut off sharply as a result of foreign inability to buy, the result might be extremely serious to the domestic economy and employment. (Elaborate.)

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It is clear, therefore, that in order to promote political stability, in order to preserve democratic institutions in the world, in order to create economic bases for peace, and in order to protect our domestic economy--it is clear that for all these reasons we must be prepared in the years to come to extend financial and economic assistance to the world on a scale which we have not hitherto considered.

There are nevertheless definite limitations upon the ability of this country to aid in foreign recovery. It is necessary that these limitations be perfectly understood.

There is an extremely serious dollar problem in the world. But there is an even more serious commodity problem. Money means little in this period of extreme short-supply unless it can be translated into commodities. It is not dollars that foreign countries need, but food, coal, steel, machinery and the like. And for many years there are not going to be enough of these commodities to go around.

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Our policy of foreign aid must be closely geared at all times to the realities

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realities of production and supply. This is true of the United States no less than of other countries.

(Cite here the essential facts of supply with respect to (a) food, (b) coal. Describe what we are doing with respect to these commodities, the international allocations systems in effect, etc.)

But limited supply extends far beyond these, to items such as steel, machinery, railroad equipment, and the like. Our steel industry in the United States is today operating at 94 percent capacity, which is an all-time record. And yet domestic plants that are seeking to expand their productive facilities are encountering long and expensive delays in obtaining supplies. It would be a short-sighted policy indeed were this country to ship so much steel abroad that we could not expand our own productive facilities for the purpose of increasing supply to our own citizens and to foreign countries. The same consideration applies to box cars, and certain other equipment. Unless we pay close attention to domestic needs, we might very well hamstring the productive processes in the United States upon which recovery everywhere depends.

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We must make perfectly certain that in making aid available to foreign

countries

countries we are not depleting our own economy. I think that most thoughtful foreigners will agree that maintenance of the economy of the United States in a strong and prosperous condition is essential to world peace.

We are today doing our part to get the world on a sound basis. We are not letting the world down. The tonnage of goods moving out of east coast ports is today twice as great as during the peak of the war. This is an admirable record. But it is a strain.

The conditions of tight supply which prevail today suggest the following considerations for American policy:

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(A) Our policy of foreign aid must be selective. We must make aid available where it will be most effective in building world political and economic stability, in promoting democratic institutions, liberal trading policies, and the growth and success of the United Nations.

(B) We must concentrate to a greater extent upon utilizing the productive capacity and resources of Germany and Japan. European recovery will never be complete or stable until German productive resources are

brought into play. Likewise, recovery in the Far East can be greatly facilitated by Japanese production. The United States cannot and should not bear the entire burden of world economic reconstruction. Our policy should be increasingly directed towards the harnessing of the productive facilities of Germany and Japan to the needs of world reconstruction.

(C) In order to carry out that selective policy of world aid required by present conditions of tight supply, certain specific kinds of legislation are required:

1. Legislation giving the President the authority to procure and allocate commodities for export. (Give reasons for.)

2. Legislation giving the President authority over shipping space.

(The President has already recommended to Congress that expiring war powers in these two areas be renewed.)

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3. Passage of the International Information and Cultural Exchange Act of 1947 so as to allow experts and technicians in the Government service to be sent abroad to advise foreign governments.

4. Approval of the budget of the Office of International Information and Cultural Relations so that our programs of foreign aid may be supplemented

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by an information policy to the end of giving the aid policy its maximum effectiveness.

5. Passage of the military missions bill.

The question is often raised how this country can, in view of its present debt load, continue to aid in the reconstruction of foreign countries.

The answer is (1) that expenditures should taper off after a few years; and (2) that a reviving world economy built upon a stable political and economic base should lift this country and the whole world to heights of prosperity never before dreamed of.

There are two ways to pay off a debt. One is to skimp and save and do without until the debt is finally paid off from dwindling resources and earning power. The other is to increase productivity and earning power to the point where the debt is relatively insignificant and can easily be paid off.

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For many reasons it is not possible for this great country, as a world leader, to adopt the first alternative. The result would inevitably be a hostile and totalitarian world probably organized against us. In this

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situation our debt load for armaments, plus our reduced economic opportunities and increased inefficiency as a result of restricted sources of supply and markets, would bear down heavily upon our living standards and make our debt load relatively much heavier than it is today.

The only answer, therefore, to our debt load and to increased expenditures is increased productivity in the United States and throughout the world. That is the only answer that I think the people of this country will accept today.

(At this point, if you desire, you might include some general considerations along the line of your observations from the book which you mentioned to me entitled "The Rise of Islam". Incidentally, I have been unable to find this book anywhere, even in the Library of Congress, and I would like a further steer from you as to the exact title of the book and where it can be found.)

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Point Two. It is quite apparent that the financial commission would be powerless to discharge its functions assigned to it under the directive QUOTE to control the practical implementation of the financial arrangements KID QUOTE for Berlin which are to be worked out by the four Military Governors along the lines indicated in Paragraphs A, B, C and D of the directive, unless the commission were endowed with the power to control, insofar as Berlin is concerned, the operations of the financial institution from which the currency requirements of Berlin are to be supplied. This fact was recognized in the discussions with Premier Stalin and Mr. Molotov on August 23, when specific assurance was obtained from Premier Stalin that the operations of the

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1102 to Moscow, Sept. 12, 1948

Bank of emission, insofar as they relate to the introduction and continued use of German marks of the Soviet zone in Berlin, would be subject to the ~~QUOTE~~ control ~~AND QUOTE~~ of the financial commission and the four Military Governors. It was only in reliance upon this specific commitment that the three western Powers were prepared to accept a directive to the four Military Governors in which this relationship was not specifically and categorically established.

In view of these circumstances, the western Powers are unable to understand the position which has been taken by the Soviet Military Governor in the Military Governors' recent discussions in Berlin, namely that the German Bank of emission should in no respect be subject to the control or direction of the Financial Commission. It is therefore proposed that the Soviet Government instruct the Soviet Military Governor in Berlin that the financial Commission should be empowered to control the operations of the German Bank of emission insofar as they relate to the introduction and continued use of the German Mark of the Soviet zone in Berlin, and to direct the Bank of emission to take such steps as are necessary to implement the financial arrangements for Berlin agreed to by the four Military Governors, including the provision of the necessary supplies of currency for that

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DECLASSIFIED

E. O. 11652, Sec. 3(F) and 3(D) or (E)

Dept. of State letter, 7-13-75

By NLT-HC, NARS Date 11-24-75

1102 to Moscow, Sept. 12³, 1948

purpose.

Point Three. The position taken by the Soviet Military Governor in the recent Berlin discussions that the control of the trade between Berlin and third countries and the western zones of Germany should be exercised unilaterally by the Soviet military administration does not constitute a reasonable approach to QUOTE a satisfactory basis for trade between Berlin and third countries and the western zones of Germany AND QUOTE as provided in the directive. The Western Powers consider that the arrangements agreed upon by the four Military Governors with respect to such trade of Berlin should, insofar as they concern exports and imports (other than food and fuel imported in fulfillment of their responsibilities) provide for administration of trade regulations under the control of the four occupying powers. At the same time, each occupying power in view of its special responsibilities for maintaining the health and welfare of the civilian population in its sector of Berlin, must maintain its continued right to import at its discretion food and fuel for purposes of civilian consumption. Furthermore, each occupying power should be entitled to control the disposition of the proceeds in German Marks of the Soviet zone derived from the sale of food and fuel imported in fulfillment of

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their responsibilities into its sector from third countries and the western zones of Germany.

It is therefore proposed that the Soviet Government instruct the Soviet Military Governor in Berlin that a satisfactory basis for trade between Berlin and third countries and the Western Zones of Germany should be reached between the four Military Governors which does not involve the unilateral control of such trade by the Soviet Trade Administration and which recognizes the right of each of the occupying powers to import in fulfillment of their respective responsibilities, and to control the proceeds from, food and fuel imported for the use of the Berlin population and industry.

AX The above is not repeat not a statement but is only for your background guidance.

Cable Room Sent to Moscow. Repeat to London as 3610; Paris as 3578; Berlin as 1614.

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NR: DA-TT-9300

(April '48)

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WASHINGTON:

DA-1

From Bradley

DECLASSIFIED
E.O. 11652, Sec. 3(E) and 5(D)

By NAT NARS Date 2-8-73

We are receiving many inquiries from members of Congress as to why we do not evacuate dependents from Berlin.

Evacuation now might be plausible because it would reduce number to be supplied by air.

Such evacuation might be interpreted as either start of withdrawal from Berlin entirely, or on the other hand as a clearing of decks for action if necessary. What is your thinking on this subject in view of new situation?

(End DA-1)

BERLIN:

Re DA-1:

Please read my message prepared prior to start of Telcon which I believe will answer your DA-1.

Message follows:

DW-1

To: Dept of Army

1. Highway and air traffic conditions are normal today. Civil freight for Germans moving normally. Military freight into Berlin appears to be moving normally so far free from attempted search. Passenger trains not moving in view of Soviet action. Also, no outward movement by rail of military

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(April '48)
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E.O. 11652, Sec. 3(D) and 5(D)

ALL INFORMATION CONTAINED
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DATE 2-9-73 BY [illegible]
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NR: DA-TT-9300

(April '48)

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freight as no loadings can be made without Soviet permission and this we will not ask.

2. Compromise believed impossible to attain now as in my view this is only Soviet first step. British Deputy visited Soviet Deputy last evening to find opening and found none.

3. We can continue under present conditions indefinitely and in my opinion should do so although this will require substantial increase in air passenger lift. British wish to propose compromise but I can not agree that such an offer would serve any useful purpose except humiliating rebuff.

4. I do not believe we should evacuate now. In emergency, we can evacuate quickly. However, evacuation now would play into Soviet hands and frighten rest of Europe.

5. I propose (A) to sit tight, spending most of my time in Berlin for immediate future. (B) to let dependents who are nervous go home. (C) to speed up planned transfer of employees to Frankfurt. (D) to gradually move unessential employees. This will be done over weeks rather than days so that each additional aggravation will find our support problem lessened. In general, in spite of some imaginative correspondents' reports, our people are calm and continuing their everyday life normally.

6. While Soviets won train victory in success in stopping move, I am sure our position has topped for time being further interference with air and highway movements which would require force to implement.

7. I anticipate in next few weeks, Soviet demand for our withdrawal because of failure of act to govern Germany. I think we should await such demand before making any decision to evacuate non-combatants.

8. While British would like to find a compromise, Robertson assured me today he would stick with us. French are firm now but not wholly reliable.

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E.O. 11652, Sec. 302 and 507

DATE 2-9-73

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9. Finally, there are few dependents here who have any thought of leaving unless required to do so. I do wish to emphasize there is little nervousness among them here. Our stake is too high and evacuation would deceive no one as to military intent.

(End DW-1)

WASHINGTON:

DA-2

From Royall

Do you think situation has reached stage where it should be taken up with Moscow by Washington? Or should we await further conference by you in Berlin?

(End DA-2)

BERLIN:

DW-2

Re DA-2

I think we should await further clarification here. Robertson and I will make joint recommendation to US/UK Governments when believe Government action timely.

(End DW-2)

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(April '48)
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NR: DA-TT-9300

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WASHINGTON:

DA-3

From Royall

DECLASSIFIED
E.O. 11652, Sec. 3(D) and 5(D)

By *NAT* NARS Date *2-9-72*

We have been studying in connection with State and Commerce what general retaliatory commercial measures we could adopt against Russia, but have not yet received a report. If we found it possible to adapt measures which might adversely affect Russia to a material extent, what effect would such course have on your situation in Berlin?

(End DA-3)

BERLIN:

DW-3

Re DA-3

I think retaliatory measures would be very effective particularly in shipping. Have Soviet ship loading in Bremen now and am having great difficulty in finding fuel. However, if measures are not substantial; effect can be bad. I would appreciate knowing if effective measures are found but would recommend withholding application until you have further word from us. Measures would be an ace in the hole to us if there are such.

(End DW-3)

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(April '48)

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WASHINGTON:

DA-4

From Royall

With the strong feeling about evacuation of dependents in Congress and elsewhere we will have to consider further what course to follow. However, Bradley and I are inclined to support your views as are the JCS.

(End DA-4)

BERLIN

DW-4

Re DA-4

Evacuation in face of Italian elections and European situation is to me almost unthinkable. Our women and children can take it and they appreciate import. I cannot over-emphasize my fear of consequences. Your support in this greatly appreciated.

(End DW-4)

WASHINGTON:

DA-6

After study on retaliatory measures is completed will discuss it with you before taking any positive action.

(End DA-6)

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(April '48)

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(April '48)

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WASHINGTON:

DA-5

From Royall

DECLASSIFIED
E.O. 11652, Sec. 302 and 500

By MLT, NARS Date 2-9-73

In case your views are approved here would your situation be helped by a statement from here fully supporting your position? If so, is there any reason why we should not at same time state all the facts.

(End DA-5)

BERLIN:

DW-5

Re DA-5

I see no reason for not stating facts. If statement is made would appreciate coordination prior to release with British Government. On the other hand, there is perhaps some advantage now in saying situation is in hand of Theater Commander who is in the spot and able to use his own judgment with respect to dependents.

(End DW-5)

BERLIN:

DW-6

Having annual West Point-Annapolis dinner tonight. May I convey personal greetings and best wishes from Secretary

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(April '48)

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COPY NO.

May 1, 1947

TO: U Mr. Acheson
FROM: A-B Joseph Jones

An important omission in this outline is a discussion of why the World Bank cannot do the job, or why the American banking community cannot do it; also why the expenditures must be largely in terms of grants-in-aid rather than loans. I quote Walter Lippmann, May 1, on this point:

"In acting to forestall this collapse, we can afford to have no illusions. The deficit of the western European countries cannot be met, as Mr. McCloy's recent address makes clear, by the World Bank, or by the American banking community. The sums needed are too large. The transactions are abnormal and altogether outside ordinary private finance. Nor can the deficit be met by government loans because in fact these sums cannot be paid back. They will have to be contributed as a national investment in peace and prosperity. That will mean the revival in some form or other of what was known in war time as lend-lease. A different name for it may be invented. But that in fact is what it will have to be."

Mr. McCloy's address on April 18 makes it crystal clear that the contributions to the International Bank are merely for the purpose of providing security for private capital invested abroad. He also said, "We can't and we won't grant loans in order to accomplish political objectives. We can and we will refuse loans where the political uncertainties are so great as to make a loan economically unsound."

This definitely and authoritatively rules out the International Bank as a major factor in the kind of deficit financing which we have got to do in the next two or three years.

I feel certain that your listeners both today and next week will raise questions in this area, and it would seem to me a good idea to hit this rather hard in your original presentation.

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A-B:JMJ Jones:eh

11/25/44


THE ECONOMICS OF PEACE

July

Our new policy means that we are going to step up the use of our economic resources in support of our foreign policy.

We must change our concepts of the relation of economics to world peace.

It is no longer sufficient to consider this subject only in terms of trade agreements and trade barriers. Reduced tariffs and trade barriers are of course essential. They almost go without saying. They are pre-requisites. But they are only a beginning. The situation in the world today calls for economic and financial measures on the part of this country hitherto not seriously considered.



The situation in world today:

1. The disparity between productive capacity of U. S. compared to rest of world.
2. Rest of world terribly destroyed and trying to get on its feet.
3. Recovery is going to prove much slower and much more difficult than we have considered.

4. Nations are now obliged to spend what resources of gold

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gold and foreign exchange they possess--and these are irreplaceable from their own resources--upon consumption good, thus deferring that reconstruction necessary to make them self-supporting.

5. The production capacity and resources of Germany are prevented from contributing to world recovery partly through our failure to achieve a political settlement. Failure at Moscow to achieve an agreement.

6. In such a period of economic disorganization, uncertainty, want, fear--extremism can not fail to grow. Communism and totalitarian methods thrive in such circumstances. Determined, purposeful, and highly organized minorities--in some countries these are armed--are able to stultify the operation of democratic institutions, and in the end overthrow them. This process results in the spread of totalitarianism and an increase in the strength of the USSR, to whom these groups are loyal.

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Some people fear that our present policy of aid to Greece and Turkey, or aid to _____ will lead to war with the USSR. I do not think so. But if totalitarianism should seize Europe and Asia, I do not see how a war could be avoided. If Europe and Asia were organized along

along totalitarian lines to support the power of the Soviet Union, the fear that would grow in this country and in the Soviet Union would lead almost inevitably to armed conflict. And such a conflict, with modern weapons, would only lead to universal destruction.

What can we do? How can we deal with this situation?

A country has only three instruments

B File

MEMORANDUM FOR THE FILES

RE: The Secretary's Harvard Speech of June 5, 1947.

The reaction to Mr. Acheson's May 8 speech had been exceedingly favorable and had been successful in bringing the discussion back to the basis of economic aid, where it rightly belonged. In Europe, however, the opinion in regard to the Truman Doctrine continued to be highly critical and ~~was quite~~ responsive to the Soviet propaganda line that the United States had embarked upon a course of violent anti-Communism and imperialism. To my mind what was needed was a new speech by the Secretary of State directed primarily to the foreign audience and containing a highly attractive emotional and psychological appeal. What was necessary was an idea.

In some of the draft memoranda prepared by Cleveland a few days earlier (the middle of May) I had been impressed with his arguments for European unity. It occurred to me that this was the most popular single concept that the United States could present to Europe, namely, that Europe should unite, Europe should work together on a program of reconstruction. It seemed to me that this would hit the right psychological tone because Europe was afraid of both the USSR and the United States and that ~~if~~ we could convince Europe that our help was truly altruistic.

When, therefore, I was asked about May 15 to write an address for the Secretary to give at the University of Wisconsin on May 25, I began writing along this line. Before I had finished I was informed that the Secretary was not going to Wisconsin. Nevertheless since I knew that the Secretary was going to give a number of speeches in June, I thought it would be a good idea to finish this one and have it ready. I therefore completed it and on May 20 I sent it not only to a number of office directors for criticism, but sent it to Mr. Acheson.

A day or two later Mr. Acheson told me that he had taken my draft personally to the Secretary and had urged him to give it. I also learned that Mr. Acheson had discussed my draft and had praised it at his May 21 Staff Meeting.

Here ends the trail of my own knowledge. I heard nothing more about my draft.

Along around the 25th of May, however, I did hear that George Kennan was preparing a paper containing ideas somewhat similar to my draft. It appears that Kennan's paper went to the Secretary about a week after mine did. Just what effect Kennan's paper had on the Secretary's speech and what effect mine had, I do not know. Joe Johnson told me that he was sure that the Secretary did not get the idea of European unity from Kennan.

It would seem that the Secretary drafted his June 5 speech himself and that Bohlen worked it over and inserted considerable material. I have been extremely curious about this matter but has been impossible to trace it beyond this point.

B File B Fi

INCOMING TELEGRAM

DEPARTMENT OF STATE—DIVISION OF COMMUNICATIONS AND RECORDS

TELEGRAPH BRANCH

PLAIN

4

Action: EUR

Info:

S/S

A-H

NEA

SPA

ODD

CIG

DC/L

FC

OIC

PA

DC/R

Control 8199

Rec'd May 26, 1947
7:50 a.m.

FROM: Moscow
TO: Secretary of State
NO: 1890, Twenty-sixth

IZVESTIA, May 23, on international themes by observer "new signboard which will deceive no one" states Acheson Cleveland speech laid stress "on strategic political and ideological side: of US aid under Truman bill. Highlights follow:

"New motives now advanced in support of necessity for American aid haven't appeared by accident. It is known attitude of American public to Truman program of aid found its reflection in position of many congressmen who spoke against rendering aid to Greece and Turkey and against going over head of UNO (**).

"Nothing however can camouflage genuine motives for this aid (**). Acheson statement that USA must utilize its economic and financial resources as weapon of its foreign policy in itself revealed character of this beneficence. One of central suggestions in Acheson speech was to hasten restoration of two great workshops of Europe and Asia—Germany and Japan. It is clearly unhampered by thoroughgoing demilitarization and democratization for these former enemy countries. Acheson proposal looks like intention to restore economy of Germany and Japan on old basis provided it is subordinated to interests of American capital (**).

DURBROW

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PLAIN

INFORMATION COPY

B File

RESTRICTED

May 15, 1947

INITIAL PRESS AND RADIO REACTION TO UNDER SECRETARY ACHESON'S
SPEECH AT CLEVELAND, MISSISSIPPI ON MAY 8, 1947

During the week following Under Secretary Acheson's speech at Cleveland, Mississippi, articulate press and radio response has been almost wholly favorable. Comment to date, however, has come principally from influential news analysts, radio commentators and a few magazines and editors (e.g., Walter Lippmann, Anne O'Hare McCormick, Arthur Krock, James Reston, Joseph Alsop, Raymond Swing, Joseph Harsch, Washington Post and Star, New York Herald Tribune). On the other hand, various influential sources have not yet expressed an opinion (e.g., New York Times, Scripps-Howard, Chicago Tribune, Hearst). Also scarcely any editorial comment has yet been received from sections of the country other than the East.

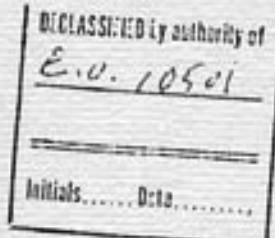
News stories highlighted Mr. Acheson's statement that the United States would "push ahead" with the reconstruction of Germany and Japan "even without full Four Power agreement". But most commentators laid chief emphasis on Mr. Acheson's five-point economic program for "implementing and clarifying the Truman Doctrine". The importance and long-range implications of the address were widely noted, Ernest Lindley stating: "Under Secretary Acheson's speech should be read in full by everyone who attaches more importance to the ocean currents of world affairs than to the ripples and the waves".

Most felt that the speech represented a "conscious effort" on the part of the Administration to emphasize the "positive" side of European reconstruction rather than the "military, ideological and emotional" aspects of "battling Communism". Commentators of varying political outlooks welcomed the speech as indicating that the U.S. would pursue a policy of "reconstruction rather than recrimination". There was wide agreement with the New York Herald Tribune that in the light of present world conditions and in the hope of a healthy, solvent and friendly Europe, "We have little choice but to continue the course marked out by Mr. Acheson".

Much of the comment revealed deep concern with the desperate conditions of hunger, poverty and misery

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-2-



in Western Europe with a corresponding awareness of the economic and political implications of such a situation. Some felt the program might call for "something like a post-war extension of lend-lease" and others looked at the program in terms of \$5 billion in loans or grants. Nevertheless, the common reaction was that of the Washington Post: "The blunt inescapable fact is that the United States is the only country in a position to meet that financial need and, if we do not meet it, we shall assuredly be landed with general disorder, political as well as economic". A minority note was struck by the Wall St. Journal which, while "not quarreling" with the Acheson points, warned against assuming that economic betterment "surely will be attended by political pacification".

A number of commentators echoed approvingly Mr. Acheson's plea for increased U.S. imports and the continuation of export controls. For example, Marquis Childs stated: "The thesis Mr. Acheson developed was that we must take as large a volume of imports as possible from abroad in order that the financial gap between what the world needs and what it can pay for can be narrowed". Similarly, the continuance of export controls was endorsed by several to make essential goods available to countries in need.

Despite the general acclaim for the program, however, many noted that it ran "straight into the economy drive of Congress". Several agreed that it would "take a lot of oratory to persuade Congress to permit vast imports or to make still larger loans". Joseph Alsop, in this connection, reminded that the alternative would be "the necessity of pouring anywhere from 25 to 40 per cent of the national income into national defense in a world in chaos".

From Congress itself came a request from Sen. Bridges for a "total figure" of the foreign aid commitments which would be necessary to implement the "Truman Doctrine", Cecil Brown commenting that this was a question uppermost in the minds of many Americans, who wanted to know "how much this whole program of stopping communism is going to cost and where it is taking us".

EXCERPTS FROM COMMENT ON MR. ACHESON'S SPEECH

Joseph Alsop (Washington Post) - May 9, 1947

"As in the prelude to the Greek-Turkish crisis, the danger signals are going up in Washington...The prospect of a world-wide monetary crisis is the cause...Just when or how the developing crisis will become acute...no one can as yet predict. But the facts--that the crisis is developing and developing much faster than even the pessimists had expected are no longer disputed. That is the meaning of the carefully expressed speech of warning just delivered by Under Secretary of State Dean Acheson...The first step...is to secure from Congress a renewal beyond June 30 of this year, of the controls by which essential goods are made available for export and directed to the countries most in need of them. This is the only way to avoid an insane competitive scramble. The second planned step is to bring the World Bank to life--to get the bank to meet the most urgent needs of France and other Western European countries... The third step will be to expand lending power...through the Export-Import Bank. All this will be exceedingly unpleasant for the political sleep-walkers and the 'back to normalcy' drum thumpers. But they, and the country will have the same choice on a much larger scale, as in the Greek-Turkish emergency. Either they can provide the few billions immediately necessary to promote political and economic stability, or they can expect their bellowings for 'economy' to be rudely interrupted by the necessity to pour anywhere from 25 to 40 per cent of the national income into national defense in a world in chaos..."

Neal Stanford (Christian Science Monitor) - May 9, 1947

"This determination on the Administration's part to get on with the process of reconstruction despite political stalemates over peace settlements is perhaps the major addition to American foreign policy since Secretary Marshall's return..."

James Heston (New York Times) - May 9, 1947

"The administration is not happy about the emotional response here and abroad to the military and ideological aspects of the Truman Doctrine. Consequently a conscious effort is being made now to emphasize the positive economic problems of reconstructing Europe rather than the military and ideological program of blocking Russian expansion and Soviet communism. . .

James Reston (Continued)

Unfortunately it is not going to be easy to switch the mood of Congress and the country. The administration has centered its primary appeal in the last eight weeks on aid to Greece and Turkey as if that were the most important aspect of the reconstruction problem...Now, however, the emphasis is shifting...Those who went to Moscow have come back convinced that the decisive testing ground for peace and a democratic Europe is the West and that the West cannot be sustained by anything but sound economic reconstruction."

Elmer Davis (ABC) - May 9, 1947

"...But the Greek-Turkish situation...is not the biggest one nor the one which is potentially most serious. Attention was turned to some of these long-term headaches by Under Secretary of State Acheson...Economic aid should be concentrated, said Mr. Acheson, in areas where it will be most effective in building world political and economic stability. To that extent it is a political as well as an economic program. But it is not in any sense a war program. It is a peace program designed to create such a general state of well being that there will be less incentive for any nation to fall into either civil or foreign war..."

Winston Burdette (CBS) - May 9, 1947

"The very nature of the (Greek-Turkish) program gave an emotional emphasis to the Congressional debate. It was presented as an emergency move to halt Soviet expansion...It was asked to approve the general idea without seeing the entire pattern. The confusion was understandable. Our policy makers themselves are still at work filling out various details in the larger pattern...The larger...positive side of our Government's foreign policy design would call for the revival of western Europe through large scale, long-term economic assistance...It would have to be met by something like a post-war extension of lend-lease...This is the Administration's first effort to prepare and warn the Congress."

b7c file

Martin Agronsky (ABC) - May 9, 1947

"The statements of responsible Administration officials, which immediately after the Truman Doctrine was first presented, dwelt so heavily on the ideological and military importance of its anti-communism motto, have brought forth a very heated emotional response, a

response that now seems to frighten them a little bit ...So now the State Department line seems to be to attempt to concentrate on the importance of American economic operations to preserve European stability... But if today's House debate is any indication, it's not going to be so easy to turn off the heat. And it all points up one of the vital and really depressing failures of the Truman Doctrine...to emphasize so that all who run can read that the best way to defeat communism is by making democracy work where American intervenes abroad, and not by presenting the problem only as one of blocking communism with a big stick."

Washington Post - May 9, 1947

"...The pressing demand for our products from war-starved countries will not be satisfied for quite a number of years to come. We should, therefore, be considering long-range plans for meeting those needs and at the same time for sustaining our export trade. The draft on our resources will, no doubt, diminish as rehabilitation goes forward. Moreover, the countries aided will in time be able to increase their exports to us and so earn dollars--provided, of course, we are prepared to receive goods in payment. Nevertheless, further financing of hard-pressed foreign countries beyond the amounts already authorized will be essential. The blunt and inescapable fact is that the United States is the only country in a position to meet that financial need and, if we don't meet it, we shall assuredly be landed with general disorder, political as well as economic."

B-File

Walter Lipomann (Washington Post) - May 10, 1947

"The Administration will never regret that it commissioned Mr. Acheson to make this speech. The warning signals have been raised while there is still time to avert a collapse. If the measures which it calls for are taken, they may carry the world over the hump of danger into a time of reconstruction and peace... The Administration will do well to address itself to the adult and informed population of the United States and to assume that the American people would rather hear the truth than be jazzed up and needled by rhetoric...The rhetoric of the Truman message is something to be avoided. The tone and temper of the Marshall, Dulles and Acheson speeches are something to be adhered to."

File

Raymond Swing (ABC) - May 11, 1947

"Indication that the Administration now sees the folly of the emotional selling campaign used to back the Greek-Turkish program is the speech made by Dean Acheson... Mr. Acheson was calling attention to the economic side of our task abroad and to the very grave condition of our foreign trade...It is obvious that something must be done now...This is a situation which the country and Congress have to be told. Provision must be made soon if we're not to find ourselves in a tempest for which we have some responsibility and from which we are sure to suffer. It will not do to content ourselves with loose talk about Communism. For though it is true that a ruined Europe, which we've not adequately aided, will go communist in its chaos, the communism is not the danger, the chaos is the danger and the way to stave off the communism is to stave off the chaos...If it really took the emotional melodrama of the Truman doctrine to get a one-time payment of \$400 million for Greece and Turkey, what under the sun could induce Congress to provide nearly 5 billions a year on terms equivalent to Lend-Lease. Obviously it can't be done with emotion. Above all, it can't be done with hatred. What the world now needs is reconstruction not recrimination..."

Joseph C. Harsch (CBS) - May 11, 1947

"But this speech took American policy back to the problem very much more urgent than the Greek-Turkish issue which was precipitated when Britain announced that she was withdrawing from those particular countries. Mr. Acheson was announcing Part Two of the Truman Doctrine even before Part One had been formalized by the signing of the Greek aid bill. Another way of saying it would be that he took American foreign policy back to the fundamental issue from which it was diverted by the issue in Greece...The real problem is not Russian-trained guerrilla bands in Greece or a Russian war of nerves directed at Turkey. It is the economic weakness of Western Europe.

"In the end we lose the negative battle against Communism along with the positive battle for freedom and democracy if we fail to provide economic conditions in which freedom and democracy can survive..."

B. F. 11

Wall Street Journal - May 12, 1947

"The present foreign policy of the United States looks to bolstering of the economies of western Europe on the assumption that if that is neglected the political chaos will increase and that countries will be propelled by their despair into totalitarianism. Unless one believes that it is feasible and possible for the United States to withdraw from Europe, it would be difficult to quarrel with the policy...What we should not do, however, is to suppose that economic betterment surely will be attended by political pacification. It may be, but it is unlikely that the world has yet seen the exhaustion of the resources that are being employed to maintain disturbed politics..."

Marquis Childs (Washington Post) - May 13, 1947

"The speech was intended to be in effect, an extension of the Truman Doctrine. The thesis Acheson developed was that we must take as large a volume of imports possible from abroad in order that the financial gap between what the world needs and what it can pay for can be narrowed. This is the positive side of the Truman Doctrine. It looks forward to a peaceful world in which there is an ever-increasing exchange of foods and services."

Jennings Perry (PM) - May 13, 1947

"Of course the malodorous and unpopular Greek-Turkish business has got to be wound up in Congress; but already it has served its main purpose--as a pop-off valve for our stop-Communism hysteria...Now, in its gentle way, the State Dept. is turning our attention to the real needs of the world and our real responsibilities toward ourselves...It has begun to speak, through Gen. Marshall, in genuine terms of goods, fuels and machinery and through Mr. Acheson, in terms of vast credits and the rehabilitation of stricken economies; It is talking billions instead of bullets and this American new economic policy makes sense..."

B File
B

Anne O'Hare McCormick (New York Times) - May 10, 1947

"At last a Government spokesman admits that nothing less than a bold plan for reconstruction of Europe on the basis of food, fuel and industrial production will stave off the collapse of which Greece is merely a local symptom...More and more it is borne in on policy-makers that everything comes back to food..."

New York Herald Tribune - May 10, 1947

"Nearly every phase of that (Acheson) address fits neatly into the pattern of sharp competition and seems to be a mere extension of the Truman doctrine as it is narrowly understood--the checking of Communist expansion through the use and the withholding of American goods and credits...Selection is necessary and Russia herself, virtually dictated the lines on which selection must be made. If she is willing to cooperate, willing to reduce strains caused by her political activity (and inactivity), willing to join in the various agencies for improving the world's economic condition, it may be feasible to broaden the scope of American aid without reducing its effectiveness. But until then, the U.S. has no choice but to continue the course marked out by Mr. Acheson."

B File

July 2, 1947

PA - Joseph Jones

I spent several hours last night with Clark Clifford word-pinchin on the President's July Fourth message. I also had dinner with him and had a good talk. Incidentally, I am extremely impressed with his ability and liberalism.

We got to talking about the major lines of foreign policy, and I mentioned that in my opinion there was a great deal of confusion as to the relationship between the Truman Doctrine and the Marshall Plan, and that it ought to be cleared up. Clifford agreed very emphatically and said that they had been discussing it at the White House. He felt strongly that the President should issue some clarification in an early speech or statement. He suggested that I get to work on such a statement.

This of course was what I had been planning to do for the State Department and I so told Clifford. He felt strongly however that the President should make the statement. He agreed that it would be an excellent idea for the Department to publish the President's clarification statement together with all the supporting speeches and documents so as to make a useful promotion pamphlet.

I detect on Clifford's part a desire to have the President take more of a lead in foreign affairs and to be the chief spokesman in this field. Perhaps it hasn't gone as far as jealousy of the Secretary at the White House, but certainly there are tendencies in that direction. On the other hand, I would be extremely surprised if there were not like tendencies in the Department. For that reason I think that although Clifford is an excellent contact for us and presents to us a number of opportunities, we shall have to be extremely careful in our direct dealings with the White House.

As for the job Clifford has asked me to do, I shall of course do it. But then I think we must figure out some appropriate way for getting it to the White House officially without too much heart-burning.

I would like to talk this over with you when you have time.

B-File B

May 7, 1947

Dear Mr. Lippmann:

I send you herewith a copy of a speech which Mr. Acheson will make tomorrow in Mississippi.

In my opinion one of the chief meanings of the Truman speech of March 12 has been largely ignored, namely, that the United States is prepared to use its economic resources to help remedy the conditions of economic anarchy in which Communism inevitably breeds. There has been too much concentration upon the military aspects of that program which are, in fact, quite unusual.

In tomorrow's speech Mr. Acheson hopes to bring discussion back on a level where it belongs. Many people have criticized the Truman doctrine as being negative. It seems to me that this speech outlines a positive economic program.

I notice that you have been emphasizing this theme for several weeks, and I am sure you will want to give this careful attention.

Sincerely,

Joseph M. Jones

Enclosure

Mr. Walter Lippman,
3525 Woodley Road,
Washington, D. C.

B_File

B File

U. S. STUDIES SHIFT OF HELP TO EUROPE AS A UNIT IN CRISIS

'Continental Aid' Based on Idea
That Economy Link Makes
Single Grants Unfeasible

ENORMOUS COST IS CITED

Outlay in 2 Years Is 17 Billion
—Opposition in Congress and
Waste Underlie New Line

By JAMES RESTON
Special to The New York Times

WASHINGTON, May 24 — Official Washington, confronted with an economy Congress and a developing European economic crisis, is seriously considering a different approach to the problem of European reconstruction.

The old approach was to deal with the shattered economies of the several nations one at a time, lending now to Britain, then to France, then to Italy, etc. The new approach is based on the growing conviction that the problems of all these countries are inter-related and that Europe cannot recover by shoring up, one at a time, the various national economies.

What is under urgent and thoughtful consideration is a proposal to call on the nations of Europe to suggest a more coordinated continental economy as a preliminary to the United States meeting them with a large-scale program of "continental aid."

Idea Still in Beginning

This idea is merely in the germinating stage. What is being suggested is not a sharp demand for European unity in exchange for American aid. The idea reflects that responsible American officials are coming around to the belief that just as the American and European economies are interdependent, so the national economies in Europe are interdependent and must be worked out by the European nations in relation to each other.

[The possibility of a special session of Congress this autumn to deal with the new approach to the United States role in European reconstruction is being studied by Administration Neutronics, according to The United Press.]

"European recovery," Under-

U. S. STUDIES SHIFT IN HELP TO EUROPE

Continued From Page 1

but several specific factors are moving it in that direction. Among these are the following:

1. The Administration seems to have concluded that unless the European nations, or at least some of them, get together and agree to a much wider system of pooling their resources, removing tariff and currency barriers and agreeing to a more rigid system of allocating raw materials for reconstructing Europe as a whole, much of United States aid to them will be wasted and nothing will be rebuilt except the old, weak, fragmented European economy.

2. Even if the Administration were willing to rebuild the old Europe, Congress would probably not approve. Between July 1, 1945, and July 1, 1947, the United States will have contributed nearly \$17,000,000,000 in cash and goods to other countries. The Administration has been warned by its leaders on Capitol Hill that Congress will not continue this process unless it has far more evidence of progress than has appeared so far.

3. The United States is clearly the only major source of the goods and services that can achieve world reconstruction, but the world's ability to pay in goods, services or dollars under present arrangements is conceded to be almost hopeless. Last year the United States exported goods and services amounting to \$16,000,000,000 and imported only half that much.

Gap Growing Wider

About \$5,000,000,000 of this deficit of \$8,000,000,000 was met by grants, loans and other means, but the gap is increasing because the need for American goods abroad is going up faster than the world's ability to increase its production and its credit.

In the first quarter of this year, for example, we exported goods and services amounting to \$4,900,000,000, while the rest of the world was able to send back goods and services amounting to \$1,900,000,000.

In other words, the deficit is at a rate of \$1,000,000,000 a month. The deficit of \$3,000,000,000 in the first three months of this year was met by a grant of \$1,200,000,000 in loans, long and short term, to foreign countries; liquidation by those countries of \$1,200,000,000 of their foreign assets, long and short term, including gold; and the transfer of about \$700,000,000 worth of goods owned by the lend-lease project, the United Nations Relief and Rehabilitation Administration and the Army.

This situation, the Administration concedes, cannot go on much longer under the present arrangements. Congress has appropriated enough money to meet part of the deficit this year, but it has shown

relief bills, he was asking his new Policy Planning Committee to make a detailed study of the situation to determine what to do in the next session of Congress.

Official quarters have already done much thinking on the problem. The more the problem has been studied, the more conviction is there that it must be tackled in much bolder, broader and more radical ways than in the past.

For example, it is generally conceded that if much more of the United States' expenditures in foreign loans had been applied to the central problem of increasing Europe's coal supply, all the nations that received direct loans—Britain, France and Italy, for instance—would be further along with their reconstruction than they are.

Close Relationship Illustrated

The inter-relationship of the European reconstruction problem is illustrated by these facts: The Dutch want economic help for rebuilding the ports of Rotterdam and Amsterdam, but until it is decided how much the Ruhr and the Rhineland are to produce it is difficult to decide wisely about the expenditure of vast sums on the Dutch ports.

Similarly, in the case of the British loan, it is seen that the recovery of Britain depends on the recovery of all western Europe. As the British now say, they are buying imports from us in dollars and "giving away" exports to Europe. What they mean is that they are to a large extent selling to Europe for "soft currencies," which are not good in the dollar market.

What the British do not say, but what our officials are beginning to see, is that if the British, French and Italian loans had been increased and spread over the entire trading area of western Europe, they would have done far more good for everyone concerned, including the countries that received them.

Seeing the possibilities of the combination of an "American continental plan" and a real effort at increased coordination of the European economy is much easier, however, than overcoming the political obstacles to acceptance of such a plan.

Soviet Cooperation Needed

In this respect the main, and not unfamiliar, problem seems to be to get the cooperation of the Soviet Union's Politburo and the United States Congress. Despite all the anti-Soviet talk, the officials who are discussing a "continental plan" are not trying to establish an anti-Soviet bloc.

They recognize the dependence of western Europe on eastern Europe and the objective of their present explorations is to bring East and West together, not to separate them.

No one in a responsible position here is suggesting that the United States should take advantage of its wealth and Europe's misery to in-

pose on Europe the United States' idea of the kind of economic continental system Europe should have.

Furthermore, no one is talking at this time of making a European political federation a condition of generous American aid, even though there is much sympathy in official quarters for the political as well as economic integration of Europe.

What United States officials seem to be saying is this: The economies of the American continent and Europe are interdependent; from a purely selfish point of view, we cannot maintain our prosperity or build a dependable security system unless Europe is reconstructed.

The United States cannot reconstruct Europe by itself, however. They add: We could not even build our own economy until we gradually removed economic barriers at the state lines and developed a continental trading unit, they go on and add:

We are inclined to think you will have to do something about removing your trading and currency barriers too and adopt a priority system for your problems, an allocation and rationing system for your raw materials and a series of currency agreements that will enable you to help each other.

Ultimatum Disavowed

No one, say these American officials, is giving Europe any ultimatum or saying this must or must not be done. We are merely suggesting, they declare, that if all of you or even some of you get together and come forward in a more cooperative spirit, the executive branch of this Government will be more inclined to propose large grants to aid you, and our position with Congress will be much stronger.

Finally, while these sentiments are being expressed by officials close to the top of the Truman Administration, there is still no detailed plan on how to proceed.

The idea of the "continental approach," however, has strong support in and out of the Cabinet and the State Department. It is being thought of in broad terms much as the lend-lease conception was thrashed out privately for weeks before it was put forward.

It may not be accepted in Congress, for many of the legislators seem to have the idea that war end when the fighting stops, but the tendency in the executive is to think that if the broad approach will not succeed, nothing else will.

B-Files

WASHINGTON, May 24—Official Washington, confronted with an economy Congress and a developing European economic crisis, is seriously considering a different approach to the problem of European reconstruction.

The old approach was to deal with the shattered economies of the several nations one at a time, lending now to Britain, then to France, then to Italy, etc. The new approach is based on the growing conviction that the problems of all these countries are inter-related and that Europe cannot recover by shoring up, one at a time, the various national economies.

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This idea is merely in the germinating stage. What is being suggested is not a sharp demand for European unity in exchange for American aid. The idea reflects that responsible American officials are coming around to the belief that just as the American and European economies are interdependent, so the national economies in Europe are interdependent and must be worked out by the European nations in relation to each other.

[The possibility of a special session of Congress this autumn to deal with the new approach to the United States role in European reconstruction is being studied by Administration lieutenants, according to The United Press.]

"European recovery," Under-Secretary of State Dean Acheson remarked recently, "cannot be complete until the various parts of Europe's economy are working together in a harmonious whole. And the achievement of a coordinated European economy remains a fundamental objective of our foreign policy."

Others Accepting Concept

This principle seems to be dominating the thinking not only of those dealing with the world economic problem at the State Department but also of influential citizens outside the Government like Harold E. Stassen, John Foster Dulles and Bernard M. Baruch.

It is too early to say that the Administration has abandoned the aid-to-individual-nations approach in favor of a "Continental plan,"

the old, weak, fragmented European economy.

2. Even if the Administration were willing to rebuild the old Europe, Congress would probably not approve. Between July 1, 1945, and July 1, 1947, the United States will have contributed nearly \$17,000,000,000 in cash and goods to other countries. The Administration has been warned by its leaders on Capitol Hill that Congress will not continue this process unless it has far more evidence of progress than has appeared so far.

3. The United States is clearly the only major source of the goods and services that can achieve world reconstruction, but the world's ability to pay in goods, services or dollars under present arrangements is conceded to be almost hopeless. Last year the United States exported goods and services amounting to \$18,000,000,000 and imported only half that much.

Gulf Growing Wider

About \$5,000,000,000 of this deficit of \$8,000,000,000 was met by grants, loans and other means, but the gap is increasing because the need for American goods abroad is going up faster than the world's ability to increase its production and its credit.

In the first quarter of this year, for example, we exported goods and services amounting to \$1,800,000,000, while the rest of the world was able to send back goods and services amounting to \$1,900,000,000.

In other words, the deficit is at a rate of \$1,000,000,000 a month. The deficit of \$3,000,000,000 in the first three months of this year was met by a grant of \$1,200,000,000 in loans, long and short term, to foreign countries; liquidation by those countries of \$1,200,000,000 of their foreign assets, long and short term, including gold, and the transfer of about \$700,000,000 worth of goods owned by the lend-lease project, the United Nations Relief and Rehabilitation Administration and the Army.

This situation, the Administration concedes, cannot go on much longer under the present arrangements. Congress has appropriated enough money to meet part of the deficit this year, but it has shown little evidence of being willing to keep it through 1948.

High foreign liquidate

Close relationship of the European reconstruction problem is illustrated by these facts: The Dutch want economic help for rebuilding the ports of Rotterdam and Amsterdam, but until it is decided how much the Ruhr and the Rhineland are to produce it is difficult to decide wisely about the expenditure of vast sums on the Dutch ports.

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No one in a responsible position here is suggesting that the United States should take advantage of its wealth and Europe's misery to im-

we gradually removed economic barriers at the state lines and developed a continental trading unit, they go on and add:

We are inclined to think you will have to do something about removing your trading and currency barriers too and adopt a priority system for your problems, an allocation and rationing system for your raw materials and a series of currency agreements that will enable you to help each other.

Ultimatum Disavowed

No one, say these American officials, is giving Europe any ultimatums or saying this must or must not be done. We are merely suggesting, they declare, that if all of you or even some of you get together and come forward in a more cooperative spirit, the executive branch of this Government will be more inclined to propose large grants to aid you, and our position with Congress will be much stronger.

Finally, while these sentiments are being expressed by officials close to the top of the Truman Administration, there is still no detailed plan on how to proceed.

The idea of the "continental approach," however, has strong support in and out of the Cabinet and the State Department. It is being thought of in broad terms much as the "lend-lease" conception was thrashed out privately for weeks before it was put forward.

It may not be accepted in Congress, for many of the legislators seem to have the idea that wars end when the fighting stops, but the tendency in the executive is to think that if the broad approach will not succeed, nothing else will.

B File

B File

Post - May 13
Today And Tomorrow

By Walter Lippmann

The Voice Of America

THOUGH MONEY for radio broadcasts and printing is needed so that the voice of America may be heard in foreign lands, our greatest need is to have something definite, clear, and convincing for that voice to say. There would be little opposition in Congress to an appropriation if it were not for the feeling that the men who conduct our



propaganda have little to do with the making of our policy, and that the sales department of the Government is, so to speak, writing advertisements about goods for which the production engineers have just begun to make the first blueprints.

As for the customers abroad, they are undoubtedly confused and suspicious, partly no doubt because the rival firm misrepresents us but chiefly because we sound so hot and bothered when, as a great power, they expect us to be cool and definite. Mr. Benton's difficulties with Congress and with the opposition abroad will diminish when his chief, Secretary Marshall, has had time to form and to organize a concrete American program for the settlement of the war.

THE ELEMENTS of such a program have, I believe, gradually emerged from the vast and intricate debates, and can be formulated now as the basis for further discussion. They could, I think, be stated in some such way as this:

1. The division of the world into two great coalitions—one with its center in Moscow and the other with its center in Washington—is only apparent. The world cannot be divided in this way. The coalitions cannot be organized. The nations of Europe will resist the idea that they are the satellites of the two non-European great powers, and that their continent is the predestined theater of a Soviet-American conflict. Insofar as the "Truman Doctrine" consciously or unconsciously treats Europe in this fashion, it is an obstacle to the making of peace and is destructive of American influence on the making of peace.

2. THE REVIVAL of Europe under the leadership of Great Britain and France, now the principal European powers, is necessary. There can be no Ger-

cannot be self-supporting and solvent. It will require official support from the Western Hemisphere, principally from the United States. But if the support is given on conditions which promote and induce unification, the partial union of Western Europe will exert immense attraction upon Eastern Europe.

4. THESE considerations enable us to state the definite terms upon which we could propose to settle the Soviet-American conflict. Our object is the revival of Europe as an independent power in the world. To attain this object we shall have to provide the equivalent of lend-lease for a term of years as the necessary working capital, obtainable nowhere else, for a European economic union.

The Russian contribution will have to be the military evacuation, simultaneously with a British, French, and American military evacuation, of the continent. The armies must go home, leaving behind them only token forces in Germany and at sensitive and unsettled points such as Trieste and the Greek frontier. The military evacuation of Europe would have to be followed by agreement that all European states may enter the European economic union.

In return for that, we could afford to finance some German reparation payments, and to provide some credit to the Soviets.

5. In the Middle East we should propose a new treaty covering the Dardanelles, the borders of Greece and Turkey, the port of Saloniki, and the oil concessions of Iran.

SUCH A settlement is, I believe, ultimately attainable because it reflects the actual balance of power, which neither can alter radically, between the Soviet Union and the United States. The Red Army is deep into Europe. The settlement calls for its withdrawal to the frontiers of the Soviet Union. We cannot compel it to withdraw. On the other hand, we can prevent it from advancing farther because of our ability to strike at the vital centers of Russia. The settlement would recognize the military deadlock.

To this settlement the United States would contribute financial support, large by peacetime standards but insignificant by wartime standards. This assistance would ransom Europe from the armies of occupation, would revive the most highly civilized continent in the world, would enable Russia to obtain

B File B File

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2. THE REVIVAL of Europe under the leadership of Great Britain and France, now the principal European powers, is necessary. There can be no German settlement except within the framework of a European settlement. The political and economic unification of Germany is neither possible nor safe except within the framework of a European economic union, and of enough European political union to provide the primary guarantees of the German settlement. The Russian and American guarantees of German good behavior will have to be secondary to the European guaranty.

3. Though in the end the unity of Europe must comprehend the whole of Europe, a partial unity is better than none at all. The unity of Western Europe alone

is attainable nowhere else, let a European economic union.

The Russian contribution will have to be the military evacuation, simultaneously with a British, French, and American military evacuation, of the continent. The armies must go home, leaving behind them only token forces in Germany and at sensitive and unsettled points such as Trieste and the Greek frontier. The military evacuation of Europe would have to be followed by agreement that all European states may enter the European economic union.

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To this settlement the United States would contribute financial support, large by peacetime standards but insignificant by wartime standards. This assistance would ransom Europe from the armies of occupation, would revive the most highly civilized continent in the world, would enable Russia to obtain help in her own reconstruction which she can obtain in no other way, would enable this country to avoid a chronic depression caused by unsalable surpluses of goods.

A PROGRAM of this kind, proposing a concrete settlement would, if it were persistently, patiently, and thoroughly expounded and advocated by the United States Government, be very hard to misrepresent, and very hard to reject.

The voice of America would begin to speak a language that the weary, the hungry, and the frightened are longing to hear.

B File

Acheson Asserts U. S. Must Start Rebuilding Germany and Japan

Plan to Reconstruct 'Workshops' of Asia, Europe Held Vital To Truman Doctrine

By Frank L. Dennis
Staff Reporter

Reconstruction of Germany and Japan, even without full Four Power Agreement, is an immediate objective of United States foreign policy, Dean Acheson, Undersecretary of State, asserted yesterday.

To carry out an effective policy of relief and reconstruction, implementing the Truman Doctrine first promulgated in the plan to

ACHESON

From Page 1

that are urgently required to stave off economic collapse, not just dollar credits," Acheson said.

Power to assign priorities on transportation is needed, including legislation to insure "efficient use of shipping," he said.

Pointing up the urgency of the situation, the Undersecretary said, "It is of the greatest importance to the foreign economic policy of this country, and thus to the security and well-being of the Nation, that these powers be granted."

In this connection, and related particularly to Point No. 1, he said "There can never be any stability or security in the world for any of us until foreign countries are able to pay in commodities and services for what they need to import and to finance their equipment needs from more normal sources of investment."

Geneva Parley Vital

Pointing out that our negotiators are meeting in Geneva now with representatives of 17 other countries with Russia not participating to negotiate reduction in trade barriers and agreement on fair rules to govern international trade, he said the Geneva conference must succeed.

"When the process of reconversion at home is completed, we are going to find ourselves far more dependent upon exports than before the war to maintain levels of business activity to which our economy has become accustomed," he said.

Frankly tying this foreign economic program with the political picture, Acheson said top priority for American reconstruction aid will go to "free peoples who are seeking to preserve their independence against totalitarian pressures, either internal or external."

This ties in directly with President Truman's message to Congress March 12 calling for help for Greece and Turkey, a matter still before the legislators.

Background Of Policy

In establishing the background for the five-point policy on aid abroad, Acheson said "the extreme need of foreign countries for American products is likely . . . to continue undiminished in 1948, while the capacity of foreign countries to pay in commodities will probably be only slightly increased."

He said that great as is America's aid in commodities, it is still far short of what the people of the world need if they "are to eat enough to maintain their physical strength and at the same time carry on essential measures of reconstruction and become self-supporting."

He said the commodity exports now being shipped from Eastern and Gulf ports are twice the volume of those moved from those ports during the war for our armies and for lend-lease.

Production in this country today is at the annual rate of 210 billions of dollars, he said.

"The war will not be over until the people of the world can again feed and clothe themselves and face the future with some degree of confidence," Acheson asserted.

By The Associated Press



with Love



Visit to President Building Room
808 11th St. N.W. NE 8722
We Stand for the Larger Woman
CLOTHING SHOP

B File

B File

THE WHITE HOUSE
WASHINGTON

January 18, 1947

Dear Mr. President:

Last year you made a trip around the world at my request to report on food needs at a time of critical shortage. The result was most helpful in meeting the acute problems which confronted us.

World conditions this year are not nearly as threatening, but a serious situation in food still exists in certain areas, particularly those in Europe occupied by our forces and for which we, therefore, have a direct responsibility. I believe a food survey by you of these areas would be of great benefit to us in determining our policy in supplying food or funds for its purchase. The recent merger of the United States Zone in Germany with the British Zone for economic purposes makes the food conditions in the British Zone also of interest to us.

I should, therefore, like to ask you to undertake this mission and report to me upon it. You may, of course, select your own time, but I hope that you can arrange to proceed in the near future. The Secretary of War will provide an Army airplane for the purpose and will attend to all arrangements for your comfort and convenience.

Very sincerely yours,

Honorable Herbert Hoover,
The Waldorf Astoria,
New York, N. Y.

B File

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The Waldorf Astoria Towers
New York, New York
January 19, 1947

My dear Mr. President:

I have your letter of yesterday. I, of course, wish to be of service.

I feel, however, that such a mission, to be of real value and helpful to you and the country, should be somewhat broadened out. It will come as a great shock to our people that the American taxpayer for a second year must expend huge sums to provide food for the enemy peoples. Therefore, it seems to me that this mission to accomplish its purpose must also include inquiry into what further immediate steps are possible to increase their exports and thus their ability to become self-supporting; what possibilities there are of payment otherwise; and when charity can be expected to end. Without some such inclusive report, the Congress and the taxpayer are left without hope.

I trust this suggestion will meet with your approval. I will call Mr. Ross tomorrow and ask for an appointment at your convenience, preferably on Wednesday, in order to discuss the matter.

Yours faithfully,

Herbert Hoover

The President of the United States
The White House
Washington, D. C.

BBF

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November 26, 1947

The President

Dear Mr. President:

Two different friends of mine on returning recently from the Baptist World Alliance Meeting in Stockholm told me while there they made a trip to England, Norway, Sweden, Denmark and several other countries to see just what condition they were in, and I was greatly surprised to have them tell me they found these countries in a better condition than represented by our newspapers, and the people were not in want as badly as has been stated. Both of these gentlemen thought that the people of most of the countries they visited were inclined to be unwilling to work as they should to help themselves as long as we were continuing to help them, and I gathered from them the impression that we were throwing our money away and in some cases were doing more harm than good.

Undoubtedly you have sent representatives over there who apparently have given you a different picture, therefore I have a suggestion to make for what it is worth. Why not you appoint one man from each State of the Union to make an inspection of these European countries to see just what condition they are in before we continue to pour out our money and supplies to them, as this might save us considerable money, or in any event it should create a feeling among our people that they do need help and they would be happier to meet it.

B File

Going Business Bought and Sold

All information furnished regarding property for sale or lease, is from sources deemed reliable; but no warranty or representation is made as to the accuracy thereof and same is submitted subject to errors, omissions, changes of price, rental or other conditions, prior sale or lease, or withdrawal without notice.

All the people I have talked to, and I have talked to many, have a desire to help these countries to a degree, at least if our help is needed, but everyone seems to feel there is a limit as to what we should do in the way of draining our own resources and certainly if the need is not any more apparent than these people that I have talked to say it is, then I think we could be making a mistake.

Please remember these people I am speaking of are Christians, and want to help where help is needed, and that certainly is my feeling also, but I don't think we should throw our money away needlessly because like many others I believe there is a justification in a reasonable reduction in income taxes and believe this can be done if we watch the way we give our money away.

Kindest regards and best wishes,

Yours sincerely,

Ray Moseley

Ray F. Moseley/15

B File

Harry

Dr Oscar Johnson the
Best Baptist Preacher in America
think they need help badly
+ so does our new preacher
Rev. Martin Luther King - a Col. in
last war. We are proud of you
Yours Ray

December 1, 1947.



Dear Ray:

I appreciated very much your letter of November twenty-sixth and for your information I've known all the time that Norway, Sweden, Denmark, Belgium and Holland are not in a bad way.

Only Norway got into the war and was not as badly treated as some of the other occupied countries. Britain, of course, expended all her resources holding the line. France was overrun, as was Austria and most of Italy. Germany was almost completely destroyed so far as its industries and homes are concerned and Poland was completely wiped out.

You must have a picture of the whole thing before you can make a decision on any of it and there has been so much propaganda put out by people who know nothing about the situation that it is hard to discover what the truth is.

I think we are approaching it in the right way. However, I am glad to have your views on it and appreciate your interest.

Sincerely yours,

HARRY S. TRUMAN

Mr. Ray F. Moseley
Suite 1111 Insurance Exchange Building
Kansas City, Missouri



DEPARTMENT OF AGRICULTURE

WASHINGTON

The President
The White House

Dear Mr. President:

Adverse crop developments of recent weeks have put a lower ceiling on the total quantity of grain we will be able to export this year. It will therefore be necessary to put more emphasis on foodstuffs other than grain, in order to approximate our record total food shipment in 1946-47. This can be done, and the "export availability" table in the situation report which is being submitted to you shows that much of the lowered grain shipments can be offset.

Shipping these other foods, however, immediately raises the question of relative costs per food unit. Wheat and other grains cost the least per calorie. Grain costs therefore have been used as the measuring stick for practically all food exports. Claimant countries and United States agencies responsible for foreign relief operations, have been reluctant to pay more than the "grain cost" for any export foods. In a number of instances, such agencies have said directly that they could not pay prices higher than those which would compare favorably with grain prices. For instance, General Clay doesn't want our surplus prunes (good food) at six cents a pound.

It is obvious the actual availability of different foods, and not the relative cost factor, must be given greater consideration. If this is not done, we cannot utilize our full potential for food exports to assist in meeting desperate world shortages.

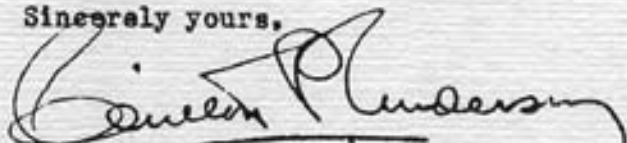
For example, dried fruits and dried eggs could add materially to our export totals if claimants would pay the extra costs involved. The same is true for certain manufactured dairy products and processed fruits and vegetables which cost more than wheat and flour on a food-unit basis.

In connection with the additional "dollar costs" involved in supplying these supplemental foods, the agencies responsible for the foreign relief programs must be prepared to pay the export costs. It would not be appropriate to use funds made available by the Congress for agriculture in such a way that they would in effect be used primarily to subsidize relief shipments. There are certain instances, of course, when necessary price support operations help facilitate the availability of supplies for export.

Because the price of wheat is basic in our whole price structure, the real cost of using supplemental foods in order to avoid inflating wheat prices unnecessarily is not as great as would appear on the surface. The price of wheat affects the price of corn and other grains. The price of grains determines largely the cost of meat, milk, eggs, and butter. The price of food is a big factor in determining the extent of wage demands, which in turn are reflected in the prices of all commodities. It would be cheaper for this country if the government agencies concerned paid the higher cost of supplemental foods for export in order to maintain reasonable wheat prices.

Unless other foods are included in our export program, the alternative is to continue bidding up the price of wheat. It is estimated that for every 25-cent increase in the price of wheat the ultimate increase in consumers cost of food alone might be as much as two and one-half billion dollars. Therefore, it now seems clear that the present situation requires a government policy which will make full use of our total exportable food resources. This will enable us to make our maximum contribution toward feeding a hungry world without creating havoc in our own domestic economy. If you agree, why shouldn't this be required of our agencies and foreign claimants?

Sincerely yours,



Secretary

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SUMMARY OF REPORT OF FAMINE EMERGENCY COMMITTEE

On January 1, 1946, our stocks of wheat in all positions totaled only 690 million bushels, even though we had started out the marketing year with a supply of 1,389 million bushels. With domestic consumption at the high rate of 87 million bushels per month, it was apparent that, unless the brakes were put on consumption at home, this country would never be able to meet its foreign commitments.

Your statement of February 6, 1946, called attention to the gravity of the famine situation abroad and laid down certain measures to be followed here. As you will recall, you asked for (1) cooperation of the public in conserving food, especially bread; (2) a prohibition on the use of wheat in the direct production of alcohol and beer; (3) a lifting of the extraction rate on wheat flour from about 72 percent to 80 percent; (4) a control of millers' inventories of wheat and bakers' and distributors' inventories of flour; (5) preference to rail movement of wheat, corn, meat, and other foods; (6) control by the Department of Agriculture over exports of wheat and flour; (7) steps to export specified quantities of fats and oils and meat, and to increase exports of dairy products; (8) release of surplus ships to expedite the movement of Philippine copra; and (9) a greater shift in the use of grain for animal feed to use as human food. The Department of Agriculture and other agencies affected promptly issued the proper orders to make effective your requests.

Appointment of the Famine Emergency Committee

Shortly after the issuance of your statement of February 6 you appointed a Famine Emergency Committee to (1) help bring about as much voluntary conservation of food by the American people as was possible, and (2) to create

a "moral climate" that would permit the Government to institute even more drastic controls, if needed, than were outlined in your statement of February 6.

Ex-President Herbert Hoover accepted the position of Honorary Chairman of the Famine Emergency Committee. Chester C. Davis, president of the Federal Reserve Bank of St. Louis, agreed to serve as Chairman. Others on this 13-member committee included Eugene Meyer, editor and publisher of the Washington Post; Dr. William I. Myers, Dean of Agriculture, Cornell University; James W. Young, of the J. Walter Thompson advertising firm; Miss Anna Lord Strauss, President of the League of Women Voters; Mrs. La Foll Dickinson, President of the General Federation of Women's Clubs; Dr. George Gallup, of the Young and Rubicam advertising firm; Justin Miller, president of the National Association of Broadcasters; Clarence Francis, chairman of the board, General Foods Corporation; Sheldon Clark, vice president, Sinclair Oil Corporation; Henry R. Luce, of Time, Inc.; and Eric Johnston, president, U. S. Chamber of Commerce.

The need for obtaining broader public representation had been recognized early. To that end, leaders of large national organizations of all types were asked to cooperate with the Committee. These individuals, over 120 in number, were brought together in a National Famine Emergency Council. The Council was never organized formally, nor were there any national meetings. Members assisted in their own way, either through the channels of the organizations they represented or by personal activity.

B File B File

One big question had to be settled at the first "working" meeting of the Committee: That question was this: what area of responsibility should the Committee cover? It was agreed immediately that the Committee should work in the field of education and information to bring home to the public the need for conserving food supplies and thereby pave the way for whatever administrative actions the Government might have to take. It also was agreed that the Committee, while not an administrative body and not empowered to take administrative action, could properly make recommendations for administrative action by the various Government agencies concerned with the famine problem. The Committee, during the time it was in existence, limited itself to these two fields of operation.

The Conservation Campaign

The campaign, from the standpoint of people reached, was most successful. The Hoover missions to Europe, Asia, and Latin America were well publicized, both while the missions were out of the country and after they returned. The Advertising Council, through radio, newspaper, and magazine advertising, made it possible for millions of dollars' worth of publicity on the famine emergency to reach the public at no cost to the Government. The Department of Agriculture prepared press releases, radio scripts, feature articles, fact sheets, posters, movies and other types of material that reached, through the Department's field Organization, almost every urban and rural home. At the request of Chester C. Davis, the mayors of the larger cities -- mostly those over 50,000 population -- formed local famine emergency committees to work for conservation and by the end of June 1946, committees

were operating in 230 large cities having a combined population of over 50 million. The distributive food trades were enlisted in the campaign, primarily to reduce food waste in marketing channels. Public eating establishments cooperated by reducing food waste in their kitchens and by reducing the size of the servings in the dining room -- the latter with the blessing of the Office of Price Administration. The American Red Cross distributed through the schools 22 million check lists carrying the conservation message. Labor unions, women's organizations, religious bodies, youth groups -- all swung into action. Space does not permit my giving you more than the highlights of what was one of the most intensive informational and educational campaigns ever carried on in this country.

Results of the Committee's Work

It is believed, although there are no statistics to back up the belief, that the total saving of food through the voluntary conservation campaign was rather small.

But the informational and educational campaign did create the desired "moral climate" needed for putting into effect drastic control measures which did make it possible to increase grain shipments. Some of these measures, in themselves, were aimed at bringing about conservation. Others made it possible to siphon wheat off the farms and into positions where the Department of Agriculture could buy.

Control Measures

The following control measures, which could be taken under legislation existing at that time, became effective during the first 6 months of 1945:

B-File

February: Prohibition of manufacture of flour of less than 80 percent extraction; tightening of wheat export controls by licensing of exporters; progressive limitation on use of wheat by mixed-feed manufacturers; limitation of wheat inventories of millers and mixed-feed manufacturers; limitation of wheat and flour inventories in the hands of food manufacturers and distributors; a requirement that, at the end of each week, wheat merchandisers and country shippers offer wheat not covered by preference order for sale to the Government. Further controls prohibited the use of wheat or wheat products in the manufacture of distilled and malted beverages, and restricted the use of all other grains for that purpose.

March: The Department of Agriculture announced limitations on receipts of wheat millfeeds and restrictions on the use of these products in the manufacture of mixed feeds. An amended order was issued to permit the manufacture of farina; the same order prohibited the sale or delivery of wheat millfeeds to other than feed dealers or flour to other than food manufacturers. The April protein meal "set aside" was raised to 10 percent. The quantity of wheat and other grains permitted to be used by mixed-feed manufacturers in designated western areas was reduced from 85 percent to 80 percent. Restrictions were issued on purchases and use of corn and other feed grains in a move designed to free more wheat for export by conserving supplies of all grains and to obtain more equitable distribution of market supplies of grain in the United States.

April: An amended order was issued reducing wheat-inventory limits of millers and mixed-feed manufacturers in 15 States from 45 to 30 days. The Department also announced that it would buy wheat from farmers for immediate

delivery to the Commodity Credit Corporation at the market price on any later date the seller might elect on or before March 31, 1947 -- the so-called certificate plan. Distillers inventories of grain were limited to a 7½ days' supply on the basis of daily mashing capacity. Millers were required to reduce production of flour for domestic consumption to 75 percent of the quantity distributed domestically in the corresponding months of 1945. Food manufacturers also were required to limit the use of wheat in the manufacture of products for domestic human consumption to 75 percent of the quantity used in the corresponding months of 1945. It was announced that, effective May 1, millers and food manufacturers would be limited to a 21 days' inventory of wheat. The Department of Agriculture offered a bonus of 30 cents a bushel on wheat delivered under the "certificate plan" by May 25, and announced that it would buy 50 million bushels of corn from producers and pay a bonus of 30 cents a bushel above the market price on the date of delivery for corn sold to the Commodity Credit Corporation. All loans on 1945-crop corn were called as of May 1 to increase supplies of grain for export.

May: Distillers' use of grain was restricted to 3 days' mashing capacity. The Department extended until June 1 the time in which poultrymen might reduce flocks so as to become eligible to buy corn and other grains. Effective price ceilings on corn were increased by 25 cents a bushel, wheat by 15 cents, barley by 9 cents, rye by 10 cents, and grain sorghums by 18 cents per hundredweight through joint action of the Department, the Office of Economic Stabilization, and the Office of Price Administration. Bakers were required to reduce the weight of bread and rolls by 10 percent.

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June: The Department announced that it would lend wheat to mills in special-hardship cases, the wheat to be released to enable mills to supply flour to areas where consumer bread supplies were found to be definitely short of the reduced emergency levels. Controls over the bartering of protein meal and soybeans were tightened so as to keep these products moving in normal trade channels. The Department also announced that the protein meal set-aside would be continued at 10 percent until further notice.

All the measures adopted by the Department of Agriculture to channel grain into relief use had some bearing on the rate of procurement. The combination "certificate-bonus" plan, however, proved to be the most successful. Under this plan, the Commodity Credit Corporation was in a position to pay more for grain than any other buyer. As a result, producers and other holders of grain sold freely to the Corporation. Enough grain was obtained, through the certificate-bonus plan and other measures, to enable the Government to meet its foreign commitments, with some substitution of other grains, by June 30, 1946.

B File

THE UNITED STATES GRAIN EXPORT PROGRAM

Summary

From July 1946 through June 1947, the United States has exported 14.5 million tons of food grains and grain products. This is the largest yearly export in recent U. S. history. It results from record crops in 1946 and a careful management of the export program, including the making of allocations to claimants with subsequent licensing for export, centralized buying of most bulk grain by the Government, and near maximum utilization of inland transportation including priority use for export grains at times, and coordination of all transportation and port facilities. Necessary facilities are available, if used under optimum conditions to exceed in 1947-48 the program of 1946-47. However, in spite of indications of another record crop of wheat in 1947, and a probable availability of this grain in excess of 1946-47 exports, total grain production will almost certainly be less than from the 1946 harvest, and, consequently, total export availability will be no larger than a year ago, and may be less -- ranging between 12.0 and about 14.5 million tons, depending upon crop conditions during the remainder of the season. The very poor crop conditions to date, failure to show a seasonal improvement, and the improbability that the corn crop will escape frost damage because of its late start suggests that claimant countries make their plans, at least until after a safe harvest of the corn crop, on the assumption of an export availability approaching the lower limits of the above range rather than the upper. In any case, grain exports for feed will be kept at the maximum practical level, and, assuming continuation of export controls, will be divided among the claimants, to the extent possible, in accordance with real need to avert hunger. However, claimant countries, because of the precarious position of spring grains, may find it wise to adopt all measures possible to minimize the need for U. S. grains during 1947-48.

A. Transportation and Other Physical Limitations on the Movement of Grain

A factor that will have considerable bearing on the volume of U. S. cereals exports in the 1947-48 fiscal year will be transportation and problems related thereto. However, it is not expected to be the major factor it was in 1946-47 when supplies were larger than they are expected to be in 1947-48. Nevertheless, it will be important, particularly in certain seasons and months, especially during the early months of the year when the harvest of the record wheat crop is in full swing. If large quantities of grain are not moved from the country to terminal elevators during these early months, when boxcars will be in the harvest areas, this fact might have a considerable bearing on the total export attained during the year. Later in the year internal transportation may be of somewhat less importance, since supply availability is expected to become the significant limiting factor, making it relatively easy to move the grain that may be available. However, if crop conditions improve and supply availability becomes greater than now anticipated, these transportation factors will continue to be highly significant throughout the year. The subject is discussed in detail in the following sections:

1. Transportation and Boat Loading Problems:

This subject has three main aspects: (a) Inland transportation; (b) port capacity; (c) availability of ships.

(a) Inland transportation --

- (1) Rail: By far the most important single factor, other than supply, affecting the grain export program is the boxcar problem. Experience has shown that there has been a grossly inadequate supply of boxcars for grain, both for movement from producing areas and for movement from terminals and sub-terminal positions to the ports. Considering the total supply of boxcars, and covered hoppers when available, the pro-rata share of such cars for grain, based on history, has been inadequate to meet the demand for grain movement. What has been accomplished in the movement of export grain has been done only because there existed transportation controls which on occasion gave priority to export grain movement. This situation obtains at the present time and doubtless will continue to prevail unless and until a greater number of boxcars can be placed in service through one or more of the following: (a) New construction; (b) more expeditious

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repairs of "bad order" cars; (c) more efficient handling of available boxcars; or (d) a business recession affecting the movement of other commodities.

As for the first of these possibilities -- new construction -- old boxcars are still being retired more rapidly than new cars are being constructed. Currently the rate of decrease is something like 750 cars per month. It is hoped that during the coming year the rate of new construction may begin to exceed the retirement rate, but so far the construction goal (10,000 cars per month) has not been approached.

Because boxcars are older and are receiving greater wear than is normally the case, little can be expected on the repair side. Efficiency in handling boxcars has been greatly improved during the past year. For example, average "turn-around time" in May of this year was 14.6 days, compared with 18.3 days at approximately the same time a year ago. Weekly volume of cars loaded per week in May of this year was about 960 thousand as compared with 755 thousand a year ago when more cars were available. But further improvement in this direction cannot be counted on; rather it remains to be seen whether progress made can be maintained.

Nor can a business recession, which might make more cars available to grain, be predicted. The contrary, a higher level of activity and greater competition for cars, might well prove to be the case.

The conclusion which must be drawn is that boxcar availability, because of slow construction and wornout equipment, will not improve materially, if at all, in 1947-48. Thus, if a volume of grain exports in 1947-48 is attained which is nearly as high as 1946-47, rail priorities covering grain, and careful planning in the disposition of available cars will be a basic need, at least in the early months of the year. Further elaboration of the boxcar situation and its relation to the total program may be found in the section on inland water transportation which follows.

- (2) Water: The United States is fortunate in having access to the Great Lakes, an inland water route by way of which grain can be shipped by boat from "Upper Lake Ports" (Duluth, Chicago, etc.) to Buffalo, Erie, and other "Lower Lake Ports" which are within striking distance by rail of seaports, or on an all-water movement to Albany from which port grain can be shipped via the Hudson River to the ocean. The great bulk grain loading facilities of the East Coast could not be used to a degree resembling capacity, were it not for this water route. Unfortunately, because the Lakes are frozen during the winter months, this type of inland transportation is not in continuous use. Normally from the latter part of November until mid-April, all shipments cease. Thus, in order to maintain a large export program from December through the middle of May without drawing on the vast, long-haul winter rail movement from the Midwest grain producing areas to the East Coast, it is necessary to move a sufficiently large quantity of grain through the Lakes prior to December to build up a stockpile on which to draw throughout the winter and early spring. This will not be easy to do this year.

The major way to insure availability of really ample supplies for East Coast export during the winter would be to start immediately and to continue through July and early August to move substantial quantities of Kansas and Nebraska winter wheat to Chicago to be loaded on Lake boats. But the boxcar shortage enters into the picture. All cars that are obtained (and more if they were available) will be needed to move wheat from farms and country elevators to sub-terminal and terminal elevators, especially in the Southwest where country storage space is far short of needs. If too many cars are used in hauling grain out of the harvest area to Chicago, numerous car-days will be lost because of the distance to and from Chicago, and the time lost in the

turn-around in the vast Chicago railroad yards. On the other hand, if these same cars are used in hauling wheat from the country to nearby terminals, several trips could be made in the same time it takes to go to Chicago and return, and there would be less probability of losing the cars to other types of traffic.

It is doubly important that this grain be moved into terminals while the grain is being harvested and while the cars are in the area. First, because the wheat will be safely stored, for the waste involved in on-the-ground storage which is often the only alternative, can be very significant in a wet year like 1947; second, because the wheat is then located at centralized points and in position (after the cars move out of the area as they follow the harvest north) to be moved to the Gulf as needed, via shuttle trains for example. Were this winter wheat largely left on farms or in scattered country elevators, the difficulty of supplying the Gulf throughout the year would be greatly increased. So actually, the problem becomes a choice between large initial movement of winter wheat from the country to terminal elevators (or directly to Gulf ports) or a sacrifice of this movement which would be bad economically and to the detriment of the Gulf export program in later months, in order to have a larger and earlier East Coast export program. As a matter of fact, in planning its 1947-48 export program, the Department of Agriculture is attempting to compromise these two alternatives in order to work out as early and heavy an East Coast program as possible without seriously damaging the position in the Southwest. However, it is clearly not possible, boxcar availability being what it is, to accomplish a maximum movement both in the Southwest and to the East Coast via the Great Lakes.

Of course, a very large part of the Lakes' grain movement will come from the northern spring wheat area, being shipped from Duluth across the Lakes in great quantities. However, this movement will not be underway in large volume until mid- or late September. Time and eastern mills, which contract for large quantities of this wheat, are limiting factors in the quantity of grain that can be moved into the export program.

- (b) Port capacity: Table No. 1 gives estimated port capacity without reference to supply, internal transportation, or other factors. In other words, it is based solely on what could be loaded if grain flowed in the necessary quantities in a perfectly orderly fashion. Even on this basis, actual capacity is difficult to define, so a "range" is given. The mean average port capacity would permit the export of about 18.7 million long tons per year of bulk grain alone, but taken without consideration of the other factors such a figure is meaningless. Table No. 2, discussed later, presents a better picture of the U. S. grain export potential assuming supplies are available. (See tables attached).

To see the relation of boat capacity to the whole problem of the ability of the United States to export grain, it is necessary to look at the position coast-by-coast, and to relate the potential capacity to potential month-by-month availability of grain, still assuming no limit on total export supplies during the year.

- (1) Gulf Coast: On this coast boat capacity more nearly reflects actual practical export possibilities than in any other area. It is believed that, barring undue transportation problems or other unexpected difficulties, a level of about 50 cargoes per month (425,000 long tons) is within the realm of possibility. Large quantities of grain are available (most of the increase in the U. S. wheat crop over last year is expected to be in Texas, Oklahoma, and Kansas) a relatively short haul is involved, and port facilities are available for use at a continuous rate throughout the year.

- (2) West Coast: On the West Coast the use of California ports for the export of barley is reduced well below capacity because of limited availability of that grain. It is not practical from a transportation standpoint to move other types of grain from distant areas to those ports. The 18 cargoes per month, shown as the "mean" potential of the Pacific Northwest (Columbia River and Puget Sound) will very probably be reduced considerably because of lack of wheat this year in that area (the Pacific Northwest is the only region in which wheat crop estimates are below last year). Something like 12 cargoes per month is probably the best we can hope for. The fact that the wheat crop will not be available on a large scale until September is also a limiting factor.
- (3) East Coast: As Table No. 1 shows, the largest port capacity for the export of bulk grain is on the East Coast, but it will not be possible to utilize these facilities nearly to the maximum capacity during 1947-48 for the following reasons:
- a. Volume during the months of July and August will be relatively small because the new wheat crop will be available in large quantities only toward the end of this period.
 - b. Albany, with a capacity of about 18 cargoes per month, is icebound during the winter months.
 - c. It is not possible, for the reasons given in the section on internal transportation, to move enough wheat through the Great Lakes during the period they are open for navigation to permit the building of a sufficient stockpile at lower Lake ports to maintain a maximum program throughout the winter.
 - d. It is not possible, considering the number of boxcars available, to transport large quantities of grain from midwestern grain surplus areas to East Coast ports by rail. Such cars as are available to haul grain must be kept in the grain areas to the extent possible. Too many cars moved out of that area are lost to other types of traffic.
 - e. There is a limit in the number of boxcars that can be secured and loaded for movement of grain from eastern lake ports to Atlantic ports.
 - f. Grain supplies later in the year are not expected to be freely available for movement to these ports.
- (4) Port Facilities for Bagged Grain and Grain Products: Port facilities for the movement of bagged grain and flour are difficult to determine precisely. Practically something over 400,000 tons per month product weight (equivalent to about 560,000 long tons of grain) which was attained during the six months January-June 1947, seems to be about a safe maximum. Whether it will be possible to maintain such a rate is difficult to say. The answer is related to policies yet to be finally worked out as to the proportion of flour in the total program, to the degree of success attained in achieving large bulk grain shipments, and to the possibilities of increasing the bagged grain movement.

Table No. 2 is the result of an analysis of port facilities, grain availability, and internal transportation. It attempts to show, month by month, a practical maximum volume of exports the United States could attain in 1947-48 from a physical standpoint, assuming no serious difficulties, strikes, etc., in any area or phase of the program. "Grain Availability" was employed in this analysis only as it affected the situation "timing-wise" or "position-wise". In other words, no assumptions are made at this stage as to total availability, but when the quantity that could

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be exported from any coastal area obviously is reduced, either because the grain is not yet harvested and moving or because it is located in a different area, such factors are considered. Past experience was drawn on heavily in preparing this table.

It should be mentioned also that the monthly breakdown shown is not rigid (the volume could be significantly greater or less in individual months) but was useful in arriving at a reasonable total, and does show the "flow" pattern as it should develop. The table indicates that the United States is capable of exporting a maximum of about 12 million tons of bulk grain and about 6 million tons of bagged grain and grain products in 1947-48 (or $1\frac{1}{2}$ million tons per month). This could be done only under certain conditions:

- a. Sufficient grain is available (which subject is discussed later.)
 - b. No major strikes, floods, or other catastrophes intervene.
 - c. A reasonable number of boxcars can be obtained, and priority treatment is had on occasion.
 - d. A sufficient number of ocean-going vessels is available and a high degree of cooperation obtained from the claimant countries in making vessel charter arrangements which will harmonize with the "tight" shipping schedule that will be necessary. (See section on "Availability of Ships".)
- (c) Availability of ships: The supply of ocean ships for grain is unpredictable. The total supply of vessels in the 1947-48 crop year should be larger than during the present as a result of (1) new foreign construction, and (2) the removing of additional U. S. ships from retirement. In any case, it is assumed that the number of ships available will not be a serious limiting factor in the export program.

Beyond the mere availability of a sufficient number of ships, however, there are several problems in this connection that have a very direct bearing on the capacity of this country to export grain. One of the most important problems concerns the availability of extra or "cushion" vessels. This applies particularly to claimants which have large monthly programs. It would be extremely desirable during the heavy shipping season if such claimants could afford to have available a few extra vessels, so as to be able to insert a replacement when a regularly scheduled vessel fails to appear for any reason, or further, to be able to take advantage of a "spot" in the program which is earlier than originally planned. This obviously entails a risk and possibly added expense on the part of the claimant, but it is a necessity if maximum exports are to be attained. The number of days lost during this past year because vessels were not available as scheduled to pick up grain at port is extremely large. At least one claimant used a close parallel to this system with great success.

Other factors which would aid in attaining a large volume of exports are the following: Restriction of total vessel tonnage to around 9,000 tons, thus limiting the quantity of time-consuming bagging of grain to the minimum; the use of only full cargoes; willingness to pay overtime to loading crews when conditions warrant.

Combined, these factors can make a great difference in the total program when supplies are available. They are especially important in the Gulf Area where, due to limited capacity, a day lost is lost for good.

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(d) Performance during 1946-47 in terms of boxcars and boats:

In concluding this discussion of transportation and boat-loading problems, it seems desirable to indicate what the past year's program has meant in terms of boxcars and vessels. Approximately 14,500,000 long tons of grain (excluding rice) were exported during the past year. This is over 560,000,000 bushels. The following shows the number of boxcars and the number of vessels required to move this grain:

	<u>Long Tons</u>	<u>Number Boxcars</u>	<u>Number Vessels</u>
Whole grain	9,000,000	197,000	1,070
Grain products (mostly flour)	<u>5,500,000^{1/}</u>	<u>111,000</u>	<u>495</u>
Total	14,500,000	308,000	1,565

^{1/} In grain equivalent including Canadian wheat milled in bond, but not including shipments to U. S. possessions and territories.

The number of boxcars required takes on more significance when it is recognized that very small quantities of grain or grain products moving into export move less than 250 miles to port; most of it moves 750 - 1,000 miles, and a large part moves over 1,250 miles to port.

2. Administrative Controls in Effect during the 1946-47 Year:

U. S. Government controls relating to the export of grain may be divided into four general categories: (a) allocation and license power; (b) procurement operations; (c) transportation controls; (d) export program coordination.

(a) Allocation and license power: Virtually all grains and grain products were under "export control" for most of 1946-47 for most countries, which means that the U. S. Government has been able to determine almost completely the quantity and destination of shipment from this country. This control has been carried out through establishment of monthly (for the most part) allocations or quotas, on the basis of which actual export licenses are issued. Allocations have been made to the greatest extent possible on the basis of need. IEPC programs and recommendations have been used as guides throughout, particularly since last December when a tentative schedule of requirements was drawn up and accepted by the Cereals Committee as a working basis.

(b) Procurement operation: A very important control maintained by the U. S. Government over the export program during 1946-47 was in its heavy purchase operations. The Department of Agriculture, through the Commodity Credit Corporation, procured all export wheat for all claimants (except relatively small quantities allocated to Mexico and other Latin American countries), and all grains, including flour, for the U. S. Occupied Zones in Europe and the Pacific and for UNRRA. With a few exceptions, flour and coarse grains allocated to claimant countries not served by UNRRA were procured commercially. About 62 percent of the total export program was procured by the Commodity Credit Corporation.

It was decided that the Department of Agriculture should remain the exclusive buyer of export wheat, the basic grain, because it was believed that a more orderly movement could thus be planned; that necessary transportation controls could be more easily applied; and more efficient use of port facilities would be made, with the result that total exports would be greater. Present plans are to continue throughout the 1947-48 fiscal year Government procurement on the same basis as last year.

(c) Transportation controls: Essential to the success of the 1946-47 export program were the controls maintained by the Office of Defense Transportation. These controls took the form of Service Orders issued to the railroads and were, in effect, priority assistance in the handling of export grain. An important mechanism in implementing these controls was the ODT's authority to issue (or withhold) "permits" to load and haul grain.

With the post-war boom and expanding production in most industrial fields, competition for boxcars has been extremely keen, and such assistance as the grain movement received was to the disadvantage of other types of movement, much very essential -- for example, housing material. Attempts to offer priority to any type of traffic, including export grain, has caused and will cause considerable criticism. It may become increasingly difficult in 1947-48, with no great improvement in sight in boxcar numbers, to obtain for the grain program the cars it needs. Also, it is not certain that the Office of Defense Transportation will be in operation during the full year 1947-48.

- (d) Export program coordination: It became apparent last fall that if grain exports were to approach a level demanded by the world food situation, some individual or group would have to be given authority to direct and coordinate the various phases of the program. Consequently, the President, at the request of those directly concerned, established the Office of the Coordinator of the Emergency Wheat Export Program. The existence of this office was a very important factor in the upswing in volume of exports starting in December 1946. In general, the duties of this office involved coordination of all phases of transportation, from boxcars to boats, and "trouble-shooting" in emergency situations. The maintenance of such a centralized authority, under the direction of exports in both transportation and grain, is considered essential to the success of the 1947-48 program.

3. Export Availability:

Due to the extremely abnormal weather conditions of this crop season, it is impossible at this time to do more than make rough estimates of probable exports during the next fiscal year. More definite estimates can be made when the corn harvest, the most important grain crop, is known in October or November. Tentatively an export availability is estimate which ranges from a maximum of about the same as was exported in 1946-47 (14.5 million tons) to a minimum of 12.0 million tons.

On the basis of conditions in June, 1947-48 wheat exports may be expected to increase by about 85 million bushels above 1946-47 levels, and barley and grain sorghums to increase slightly. In contrast, corn and oat exports probably will be substantially less than in the preceding year. However, with the contemplated increase in wheat movement, total grain exports under favorable conditions probably will approximate the record large volume of 1946-47. Assuming the continuation of export controls and the purchasing and shipping of most of the whole grains by the U. S. Department of Agriculture, and assuming harvests as good as can be estimated in June, it appears probable that export availability from the United States will be the quantities of grain and grain products presented in the following, on a grain equivalent basis:

<u>Commodity (Including Products)</u>	<u>July-June Year</u>	
	<u>1947-48</u>	<u>1946-47</u>
	<u>million bushels</u>	
Wheat	475.0	390.0 ^{1/}
Corn	40.0	114.0
Oats	10.0	23.0
Barley	20.0	16.0
Grain Sorghums	20.0	16.0
Other	0.0	1.0
Total exports and shipments	565.0	562.0 ^{2/}

^{1/} Excludes about 6 million bushels of Canadian wheat milled in bond in the United States and exported as flour.

^{2/} Includes shipments to U.S. Territories and possessions.

Present indications are that the above quantities are the largest that reasonably may be expected to be exported during the coming year; and continuation of the unfavorable weather conditions of May and June may reduce exports to one million tons per month on the average. Due to the fact that the largest part of the tonnage is wheat, and wheat becomes available early in the year, most of the program is expected to move in the first half of the year.

B. Supply Availability

1. The attached supply-distribution table (Table No. 3) shows estimates of the expected domestic utilization and export availability for 1947-48 of U. S. wheat, corn, oats, barley, and grain sorghums, including quantities for shipment to U. S. Territories and possessions. Because some expected corn and oat acreage did not get planted, and crops other than wheat are far from maturity, the production and use figures are tentative, being based largely on available indications.

- (a) Grain-consuming animal units in the United States have decreased each year since the peak level of 1943 which resulted from the heavy war demand for livestock products combined with availability of large accumulated grain supplies. Assuming the 5-year, 1937-41, average as 100, the estimated 1947-48 number of animal units of grain-consuming livestock are but 103 percent of the 5-year period, while the total for 1943 was 126 percent of the 5-year average. This is a drop since 1943 of 23 percentage points. The number for 1946-47 stood at 106 percent of the average.

Preliminary calculations indicate that the 1947-48 supply of the four principal feed grains, corn, oats, barley and grain sorghums available for feeding livestock, excluding estimated quantities for export, shipments to Territories, food, seed, and industrial purposes, will permit a slightly smaller quantity of these grains to be fed per animal unit in 1947-48 than was fed in 1946-47.

The total supply of all feed concentrates, including the above four grains, wheat, and byproduct feeds, will permit the feeding of only about three percent more total concentrates per grain-consuming animal unit in 1947-48 than in 1946-47. This is an extremely small margin of safety in view of a likelihood that a substantial amount of soft corn may be harvested in 1947 from a smaller acreage than was expected earlier. Wet, cold weather has seriously retarded planting of corn, oats, and soybeans.

Somewhat comparable conditions existed during the 1945-46 season. Then late plantings and early frosts caused the harvesting of large quantities of soft corn. Because soft corn does not carry the feeding value of properly matured corn, livestock producers and feeders found it necessary in that year to feed not only relatively larger amounts of corn, but also to feed larger quantities of other feed grains and wheat than would have been required if the corn had been of higher feeding value.

A comparison of corresponding data reveals that about 10 percent more grain, including wheat, was fed to only 7 percent more animal units in 1945-46 than now is believed will be fed in 1947-48. Livestock producers fed in 1945-46 approximately 415 million bushels of grain, including about 75 million bushels of wheat, more than is now expected to be fed in the coming year. Thus a considerable part of the large quantity of grain fed to livestock in 1945-46 may be attributable directly to the soft corn situation. If a substantial portion of the 1947 corn crop does not mature before frost, livestock producers and feeders may again tend to increase not only the volume of corn fed but the volume of other grains fed to livestock as well, with corresponding reductions in export availability.

- (b) If corn acreage, yields and quality are reduced below earlier expectations, as now appears probable, and 1947 production totals no more than 2.8 billion bushels which now appears near maximum, livestock producers and feeders likely will use up to 50 million bushels more wheat for feeding than they would if weather and crop conditions were more favorable. Hence, while we could have established a 1947-48 export goal of 500 million bushels of wheat on the basis of previous feed grain expectations, we do not at present expect that more than 475 million bushels of wheat can be made available for export.

Operating feed-grain stocks as a whole at the end of the 1947-48 fiscal year will be at dangerously low levels, especially with corn carryover reduced to 515 million bushels as of June 30, 1948, as against 726 million bushels estimated for June 30, 1947, and a 5-year, 1937-41, average of 864 million bushels on the same date. In light of these very low corn and other feed-grain stocks, wheat stocks of 175 million bushels as of June 30, 1948, also would be extremely low, especially if at that time crop conditions are not unusually favorable.

2. Naturally, the United States desires to export a large tonnage of grain in 1947-48, and will make available all the tonnage possible within the limits of maintaining a reasonably sound domestic economy. However, in light of present crop and general business conditions, the quantity now in prospect for export does not equal the figures publicized in some trade circles, and certainly is less than the quantity desired by the claimants. It would appear prudent, therefore, for all concerned to plan on the basis of a range of U. S. exports of 12.0 to about 14.5 million tons, with emphasis upon the lower figure until a good crop of dry corn is assured.

TABLE I. Estimated Port Capacity for Movement of Bulk Grains

	Number of cargoes per month (range)	Mean average capacity $\frac{1}{2}$ (1,000 long tons)
<u>East Coast:</u>		
Portland	3 - 5	34.0
Boston	4 - 6	42.5
New York	10 - 20	127.5
Albany $\frac{2}{3}$	14 - 22	153.0
Philadelphia	25 - 35	255.0
Baltimore	30 - 44	314.5
Norfolk	3 - 5	34.0
Total	89 - 137	960.5
<u>Gulf Coast:</u>		
New Orleans	10 - 16	110.5
Galveston	22 - 30	221.0
Houston	5 - 9	59.5
Port Arthur	4 - 6	42.5
Total	41 - 61	433.5
<u>West Coast:</u>		
Columbia River	10 - 14	102.0
Puget Sound	5 - 7	51.0
California ports $\frac{3}{4}$	6 - 12	76.5
Total	21 - 33	229.5
Grand total (mean average)	151 - 231	1,623.5
Total for year $\frac{4}{5}$		18,717

$\frac{1}{2}$ 8,500 tons per cargo. $\frac{2}{3}$ Upon May-November, inclusive.

$\frac{3}{4}$ Barley only - principally bagged. $\frac{4}{5}$ Adjusted to reflect only those months in which Albany is ice free.

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Operating feed-grain stocks as a whole at the end of the 1947-48 fiscal year will be at dangerously low levels, especially with corn carryover reduced to 513 million bushels as of June 30, 1948, as against 728 million bushels estimated for June 30, 1947, and a 5-year, 1937-41, average of 864 million bushels on the same date. In light of these very low corn and other feed-grain stocks, wheat stocks of 175 million bushels as of June 30, 1948, also would be extremely low, especially if at that time crop conditions are not unusually favorable.

2. Naturally, the United States desires to export a large tonnage of grain in 1947-48, and will make available all the tonnage possible within the limits of maintaining a reasonably sound domestic economy. However, in light of present crop and general business conditions, the quantity now in prospect for export does not equal the figures publicized in some trade circles, and certainly is less than the quantity desired by the claimants. It would appear prudent, therefore, for all concerned to plan on the basis of a range of U. S. exports of 12.0 to about 14.5 million tons, with emphasis upon the lower figure until a good crop of dry corn is assured.

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	Number of cargoes per month (range)	Mean average capacity 1/ (1,000 long tons)
<u>East Coast:</u>		
Portland	3 - 5	34.0
Boston	4 - 6	42.5
New York	10 - 20	127.5
Albany 2/	14 - 22	153.0
Philadelphia	25 - 35	255.0
Baltimore	30 - 44	314.5
Norfolk	3 - 8	34.0
Total	69 - 137	960.5
<u>Gulf Coast:</u>		
New Orleans	10 - 16	110.5
Galveston	22 - 30	221.0
Houston	3 - 9	59.5
Port Arthur	1 - 5	42.5
Total	41 - 61	433.5
<u>West Coast:</u>		
Columbia River	10 - 14	102.0
Rupert Sound	5 - 7	51.0
California ports 3/	6 - 12	75.5
Total	31 - 33	228.5
Grand total (mean average)	151 - 231	1,623.5
Total for year 4/		18,717

1/ 8,500 tons per cargo. 2/ Open May-November, inclusive.

3/ Barley only - principally bagged. 4/ Adjusted to reflect only those months in which Albany is in free.

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SCC/5 - July 1947
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WORLD CEREALS POSITION FOR 1947/48
prepared by
I.E.F.C. Secretariat

Ever since the end of the World War II the world has been short of cereals - short of cereals for food and short of cereals for feed. In view of what appeared to be chronic surpluses before the war, these shortages have come as a surprise to many people. There is still a tendency, every time a new harvest comes in, to assume that the period of shortages has passed.

There are many reasons which account for the shortage of cereals - a shortage which has reduced world stocks to exceptionally low levels; required the continuation of wartime bread rationing long after the war ended; and made necessary an extensive diversion of feed grains to food purposes which, in turn, has seriously delayed the postwar rehabilitation of livestock.

These reasons include, among others, a five to ten percent increase in the world's population; the failure of cereal production (including rice) to recover from the effects of the war as rapidly as had been anticipated, in part because of the shortages of fertilizer, machinery and even manpower; the postwar dislocation of production in a number of areas as a result of the far-reaching social and political changes, the adverse effects of rather more unusual weather during the last two years in many parts of the world than normally would have been expected; and finally the increased need for cereals to make up for the shortages of other foods in the diet, particularly fats and oils, meat and sugar.

The impact of these postwar developments has resulted in an annual cereals crisis which has reached its most serious proportions in the months immediately preceding the harvesting of new crops in the Northern Hemisphere. Bread rations had to be reduced in many countries as the world ran out of supplies in the spring and summer of 1946, and again these most disturbing adjustments have had to be made in the spring and summer of this year.

At the Fourth Meeting of the International Emergency Food Council held in Washington, May 26 and 28, 1947, it was noted that, while it was then too early to make precise estimates, there no longer appeared any doubt that there would again be a large deficit of cereal grains in the 1947/48 crop year. The only question was "How large?". Substantially more information is now available upon which to predicate an answer to the question, and this information fully justifies the concern expressed at the Fourth Council Meeting. Indeed, as of today, the prospects for the coming twelve months appear even more serious than appeared at this time a year ago the prospects for the year just ended. World cereals production in 1947/48 now appears likely to be less than it was in 1946/47, but even if the crops now beginning to be harvested turn out to be as large as those of last year, it is already evident that the geographical distribution of this year's production of cereal crops, compared to those of a year ago, has greatly increased world import requirements without proportionately increasing available export supplies.

The position for the 1947/48 cereals year (July 1, 1947 to June 30, 1948) now appears to be as follows:

SUPPLIES

While it is still too early to make any comprehensive estimates of world cereals production, it is possible to make some estimates of the export availabilities of the surplus producing countries which can be contrasted with the import requirements which have been submitted to the Committee on Cereals of the International Emergency Food Council.

Information available from the United States, Canada and Australia and estimates for other possible sources of supply indicate that total exports of all grains between July 1, 1947 and June 30, 1948 may amount to as much as 32,000,000 tons. Such quantity, if moved, would exceed by 15 percent the movement in each of the past two years and would exceed the average prewar movement of all grains by a corresponding amount. This total, as may be noted from the following table, is comprised of around 25,500,000 tons of wheat and about 5,500,000 tons of coarse grains.

ESTIMATED EXPORT AVAILABILITIES JULY 1, 1947 - JUNE 30, 1948
(In 1,000 long tons)

Source	All Grains Total	Wheat & Rye	Coarse Grains 1/
Argentina	5,500	2,000	3,500
Australia	1,650	1,600	50
Canada	8,000	7,500	500
United States	14,500 2/	13,000	1,500
Others 3/	2,350	1,400	950
TOTAL	32,000	25,500	6,500

1/ Includes maize, barley, oats, grain sorghums, millets and products.

2/ Maximum export figure-range indicated to be 12-14.5 million tons.

3/ Includes Soviet Union, Turkey, Middle East, etc.

Furthermore, there appears to be no prospect for any significant increase in the world total. Exports from some countries may eventually turn out to be higher than the estimates now being made, but any such increases are likely to be more than offset by decreases below estimates in exports from other sources of supply. Until new information indicates to the contrary 32,000,000 tons must be considered the maximum export availability of cereals in 1947/48.

The following paragraphs discuss briefly the supply prospects so far as they are known, country by country:

Argentina - The outlook for cereal exports from Argentina in 1947/48 is for only a very moderate increase, if any, over the volume exported in 1946/47, although production last season would appear to permit an appreciably larger volume of exports in 1947/48 than actual shipments in 1946/47.

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The estimate of 5 to 5 1/2 million tons is dictated by the experience of the first six months of 1947, during which shipments from a substantially larger crop have closely approximated those during the first six months of 1946, even though a direct appeal to the President of Argentina was made by the International Emergency Food Council to increase Argentina's exports to the maximum possible extent during May, June and July of this year. These three months, just prior to their new harvests, constituted the period of greatest difficulty for most importing countries.

Cereal exports of 5,500,000 tons by Argentina would represent only about one half of the prewar shipments from that country. This reduced rate of movement has contributed significantly to the world shortage of cereals. It results, in part, from somewhat smaller production, particularly of wheat and corn, as compared to prewar, and, in part, from internal transport and port loading difficulties.

Indications are that the next Argentinian harvest which will affect shipments in the last half of 1947/48 may be no larger than that of 1946/47, unless growing conditions are unusually favorable because of the tendency for the cereal planting to be discouraged by the wide margin between prices received by the farmer for his grain and the prices paid for it by importing countries. Neither does there appear to be in prospect much improvement in internal transport or port loadings.

Australia - Australian export availabilities are being carried at 1,650,000 tons, which is slightly in excess of the 1,350,000 tons exported from Australia during the year just ended. Exports for the first six months of the new crop year will be from old crop supplies since Australian wheat is harvested in December. The 1946 Australian wheat crop was far below average amounting to only 117,000,000 bushels. At the present time, Australian new crop prospects are favorable. If these prospects materialize, shipments from Australia during the first six months of 1948 will be larger than those during the first six months of 1947, and this accounts for the increase in the Australian estimate for the entire 1947/48 crop year. It will be noted, however, that a considerable number of importing countries have a domestic wheat harvest in excess of the outturn in Australia.

Canada - Carryover stocks of Canadian wheat on July 1 of this year were at minimum working levels. The new Canadian crop will be harvested in August and September. Growing conditions in Canada have been satisfactory in the major wheat producing areas although the crop is two to three weeks late. The present estimate of 8,000,000 tons to be exported in 1947/48 is based on the assumption of a continuation of favorable growing conditions throughout the balance of the season. Only extremely favorable growing conditions would increase exports above those now estimated, while unfavorable developments might result in an appreciable reduction in the Canadian crop. Last year early July indications were reduced by nearly 2,500,000 tons as a result of unfavorable July weather.

Eastern Canada has experienced an unusually bad growing season for coarse grains and this will tend to limit the total quantity of coarse grains that may be exported from Canada in the 1947/48 crop year.

Transportation in Canada last winter was most adversely affected by an extremely severe winter and record snowfall, but even with average weather conditions there could be difficulty in moving all of a very large wheat crop from Canadian prairie provinces to port during the 1947/48 year.

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United States - The export estimate for the United States of 14,500,000 tons is equal to the record exports during the crop year just ended and represents the lower limit of the range of probable exports which now seems likely based on current crop prospects. The United States is now harvesting another all-time record wheat crop but it would be a serious mistake at this stage to conclude that a corresponding increase in exports is in prospect. In the first place, a portion of the record 1946/47 U.S. exports came out of stocks, so carryover stocks of wheat on July 1, 1947, were less than unusually low stocks on July 1, 1946. Such a process cannot be repeated in 1947/48. More important, current prospects are that there will be a very substantial reduction in the production of both corn, and oats which are very important in the U.S. grain economy. Exports of corn particularly, contributed very substantially to the record volume of grain exports from the United States last year. Based on present unfavorable prospects for corn and oats it must be assumed that the production of all grains in the United States from 1947 harvests will be less, perhaps appreciably less, than the production for 1946 harvest. Although the United States wheat crop may be 5 or 6 million tons larger than in 1946, the production of other grains could easily be 12 to 15 million tons less.

A further unknown factor which will affect U.S. exports during 1947/48 will be the 1948 wheat crop prospects. If these prospects, about which nothing can be said at the present time, are unfavorable, it will not be possible for the United States to export as large a proportion of its 1947 crop as will be possible if the 1948 crop prospects next spring are average or better. It is not always remembered that there have been six years in the last two decades in which U.S. wheat production has been less than current domestic requirements.

Other Countries - Exports from other countries for 1947/48 are now put at just under 2,500,000 tons, or about twice actual exports from these sources during 1946/47. If they materialize, they will come from the U.S.S.R., Turkey, Brazil and the Middle East.

Weather and other reports of the U.S.S.R. indicate a considerably improved crop outlook in that country compared to a year ago. This is especially true in the eastern part of the Union which experienced severe drought in many sections last year. The planted acreages, especially of wheat, are, however, indicated still to be below prewar so that a very substantial increase in yields would be necessary to result in a bumper wheat harvest. An indication of improved crop prospects is a recent announcement that bread rationing in the U.S.S.R. is to be discontinued, although the exact date has not yet been specified. While the removal of bread rationing in the U.S.S.R. would appear to be evidence of improved production, such action also would be expected to reduce the supplies that would otherwise be available for export from the U.S.S.R. to meet urgent needs of importing countries. The point to be remembered, however, is that the present estimate of world export supplies made in this report includes allowance for the largest exports since 1937/38 from the U.S.S.R. Only if exports from the U.S.S.R. actually exceed the current estimate, will the supply position be correspondingly improved.

During the year just ended, Turkey, as a result of very favorable harvest in 1946, was able to export several hundred thousand tons of cereals. The current prospects are for a substantially smaller 1947 harvest in Turkey. Some exports may be possible but the volume is likely to be very much reduced as compared to the last crop year. Other Middle Eastern countries are reported to have somewhat smaller harvests than a year ago and thus are unlikely to have any significant quantity for export this season. Brazilian exports, if any, will consist entirely of corn.

IMPORT REQUIREMENTS

Based on reports to the International Emergency Food Council from countries representing 75 percent of the world's import requirements, and on estimates for the countries from which reports have not yet been received, stated import requirements for 1947/48 will total 50,000,000 tons - 44,000,000 tons for food and 6,000,000 tons for feed. For 1946/47 stated import requirements amounted to about 38,000,000 tons. Fifty million tons of grain represent approximately 6,000 full cargoes and would require the loading of 500 cargoes every month. Such a quantity of grain would cost about \$6,000,000,000, an amount greatly in excess of any previous annual expenditure for cereals. Moreover, it is obvious from the preceding analysis of probable export availabilities that no such quantity of grain will be available for importation in 1947/48.

Actual imports, in the last analysis, are determined by the volume of exports and not by the requirements of importing countries. It is essential, therefore, to understand clearly the nature of the import requirements that have been submitted to the Committee on Cereals of the International Emergency Food Council.

In anticipation of the possibility that there would be, in 1947/48 a wide gap between the demand for cereals on the one hand and export supplies on the other, a comprehensive questionnaire was forwarded to all importing countries by the IEFC about the middle of April with the request that the completed form be returned by June 1. It was recognized that the June 1 date would make difficult accurate estimates of indigenous production of cereals, but the importance of developing at the earliest practicable moment an evaluation of a possible shortage of cereals required this early submission of the requested information even though it was recognized that the actual progress of the 1947 crops might require later modification therein. It was hoped that these questionnaires would be returned in time for a tabulation and analysis prior to this conference. In fact, however, some of the replies have not yet been received and almost all of them were received so late that it was possible only to tabulate the information contained in them and to make practically no analysis.

As a consequence, the 50,000,000 ton requirement estimate merely represents a statistical summation of the requirements submitted by individual countries (together with staff estimates for those countries whose questionnaires have not yet been received).

The requirements submitted by each country have been developed upon the basis of that country's desires, preferences and hopes. Some countries have been more conservative than others in developing their requirements because of fuller appreciation of the overall world shortage. A few countries probably have submitted requirements larger than they would actually take up presumably on the theory that by asking for a good deal more than their real needs the actual quantity available would approximate such needs. Furthermore, the import requirements are affected by the plans of each country for rehabilitating livestock production because these plans affect the quantity of indigenous production it is proposed to collect. Similarly, the import requirement is affected by proposed changes in stock levels in extraction ratios, and in levels of bread consumption.

For a number of countries the estimates of indigenous production reported in cereal questionnaire appeared to have been made when crop prospects were most unfavorable. To the extent that actual outturns exceed the estimates made at the time the questionnaire was completed, the utilization plans will need to be modified less than if such an improvement had not taken place.

However, even after making appropriate allowances for the probable net improvement in indigenous crop production, and for those instances in which submitted requirements are actually larger than the country would under any circumstances import, it is apparent that a wide gap still exists between the supplies available from exporting countries and the aggregate of the imports each country considers necessary.

In summary, the increase in stated import requirements grows out of a combination of the following factors:

1. Reduced production of cereals, especially of food grains. Many European countries, as well as some countries in other parts of the world, report on the basis of June 1 prospects a substantial reduction below last year in cereal production including rice. The net reduction in wheat and rye production as compared to 1946/47 in the 16 European countries which had returned their questionnaires by July 1, is reported in these questionnaires to be 7,000,000 tons. These same countries report a net increase of slightly over 1,000,000 tons in the production of cereals other than wheat and rye making a net reported decrease in all cereals as of June 1 of 6,000,000 tons as compared to last year. For some countries indigenous food production will not be correspondingly reduced because of increased production of other foods, particularly potatoes. Moreover, there seems to have been more improvement than deterioration in crop prospects in importing countries as a group since June 1.
2. Increased livestock feeding. For those countries whose completed questionnaires were on file July 1, aggregate utilization of indigenously produced crops for livestock feeding in 1947/48 contemplated an increase over actual feed utilization in 1946/47 of 2,500,000 tons. The desire of all countries to rehabilitate livestock production is very strong and very vital to permanent rehabilitation of the agricultural plant. No problem is more difficult than the limitation of livestock feeding, but in the two years just passed it is unfortunately true that in many instances, livestock have been fed at the expense of bread for urban populations.
3. Improvement in the quantity or quality of the bread ration. Many countries would like to be able to increase the bread ration or to reduce extraction ratios or admixtures in order to improve bread quality. In the aggregate the requirements of countries whose questionnaires were on file July 1 included 1,200,000 tons for the achievement of this objective, as well as for population increases.
4. Improvement in year-end stocks. Requirements on file July 1, include in the aggregate about 3,000,000 tons for improvement in stocks during the year 1947/48. In many instances it must be recognized that some improvement in stocks is almost essential if the authorized ration is to be maintained. During the last cereals year, stocks in a number of countries were reduced to the point where authorized rations could not be fully met at all times. However, to the extent that stocks are increased during the current cereal year it is obvious that some other part of the utilization plan will have to be further adjusted.

Of the factors which singly, or in combination, have contributed to the increase in stated import requirements for 1947/48 as compared to 1946/47, on the first, namely actual production, whatever that may be, is not possible of modification. The others namely utilization of cereals for livestock feeding, improvement in the quantity and quality of the bread rations, and improvement

B-File

in the stock position, are subject to adjustment. Even if as much as 5 million tons are allowed for overstatement of requirements, and understatement of indigenous crop production, there still remains a deficit of 13 million tons - a deficit in excess of that for the year just ended. It is apparent therefore that very extensive adjustment will have to be made in the internal utilization plans of many countries.

The requirements for year-end stocks and for improvements in the quantity and quality of the bread ration will need to be reexamined. Some adjustments in plans for stock and ration improvement will be found possible. Likewise, some savings might be made in the use of grain for industrial purposes. Again, the retentions by, or allowances for, self suppliers may need to be reconsidered in order to determine whether they are reasonable in relation to the rations of urban consumers.

But the real adjustments must be made in the plans for livestock feeding, not only of imported feeds but also of indigenously produced supplies. The stated import requirements include about 6,000,000 tons for feed, while in 16 European countries for which the necessary data were available on returned questionnaires, over 25,000,000 tons of indigenously produced grain are scheduled for livestock feed, of which over 1,500,000 tons are wheat and rye and 4,000,000 tons are barley.

Any reduction in the use of indigenously produced grain for livestock feeding, of course, raises many extremely difficult administrative problems of collections and of price relationships between grains on the one hand and livestock on the other. Moreover, it delays the rehabilitation of livestock production which is a most serious matter in many countries. Nevertheless, the issue must be faced and resolved if bread rations, particularly for urban populations are to be maintained during the next 12 months even at the relatively inadequate levels of the year just ended.

B File

May 20, 1947

TO: ED - Mr. Havlik
OA - Mr. Cleveland
Stokes ✓
A-T Mr. Stinebower
OFD Mr. Ness
PA Mr. Russell

FROM: A-B Joseph Jones

The attached draft speech was begun at the direction of the Secretary at the time he thought he might go out to Wisconsin to accept a degree. The Secretary felt at that time that he would like to "develop further" the line taken by Mr. Acheson in his Mississippi speech on May 8.

Although the Secretary abandoned the Wisconsin trip, I have completed the speech. It is my understanding that the Secretary will give several addresses during June, of which one may be on this subject.

I would therefore appreciate it if you would consider this draft carefully and let me have your criticism and suggestions at the earliest moment.

Except for the first four pages, which sound warnings similar to those of Mr. Acheson in Mississippi, this speech is written primarily with a view to its effect abroad. The indications of suspicion and skepticism with which foreign peoples are beginning to view American aid are alarming and it would seem to be of first importance to spell out our design for reconstruction and to give a positive concept about which peoples of Europe especially can rally and upon which they can pin their hopes. The political and economic policy of the Department has led up to an expression of this sort and now seems the psychological time to launch it. We have a great deal to gain by convincing the world that we have something positive and attractive to offer, and not just anti-Communism.

Attachment

A-B: J. Jones: oh

B F

"DESIGN FOR RECONSTRUCTION"

Proposed Address for Secretary Marshall

June, 1947

Two simple economic facts dominate foreign affairs today. One is that if peace and prosperity are to return to this earth, nations must be able to feed their peoples, to re-build their wrecked economies, to become self-supporting. The other is that if these things happen, a considerable part of the reconstruction commodities and the money to pay for them must for several years to come be provided by the United States on an emergency basis.

These facts cannot be escaped and they cannot be denied. The restoration of peace and prosperity in this world depends to an important degree upon the willingness of this country to supply the commodities and funds for reconstruction.

We are now charting our way through what is in a sense the most complex of the several stages of world recovery and reconstruction. In the first months after the cessation of actual fighting, the relief needs of devastated countries had top priority. There was no question about what

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to do at that stage. The job was to feed the hungry and to pay the bill, that is what any humanitarian people would do.

But relief needs are now receding. The patient, brought in dangerously wounded from the battlefield, has received emergency treatment and has regained consciousness. But it will be some time before he builds up enough strength to walk and become self-supporting. Who is to help him during the period of convalescence?

If the world is to recover its powers, it will for a considerable period need convalescence loans or grants. These, I think, we can ill afford to deny, for we are the only country able to extend aid of this sort.

When the world has become self-supporting we hope to be able to turn over the job of financing reconstruction primarily to the International Bank and to private lending. But at the present time, private capital, either on its own or through the World Bank, is unwilling to take the risk involved.

Private bankers, as well as the officers of the International Bank for Reconstruction and Development, have made it clear that they will make loans only on projects that are economically sound and when there are

good prospects for repayment, and that they will refuse loans where the political uncertainties are so great as to make a loan economically unsound. It is precisely in these areas of convalescence, however, where the need for aid may be greatest. If we are not willing to extend convalescence aid, it is difficult to see how these countries are going to break out of a vicious circle in which economic conditions cause political uncertainty and political certainty precludes economic assistance through commercial channels.

What will happen if we do not provide adequate funds and commodities for subsistence and reconstruction abroad? This, I think, is hardly questionable: that if adequate help from the United States is not forthcoming, many of our allies in the late war, with which this country has long maintained friendly and mutually profitable relations, will be obliged in the months to come to cease imports of food and reconstruction material. Should this happen, human want, economic collapse, political crisis, eclipse of democratic institutions, growth of extremism, and perhaps loss of independence would in many countries quickly follow. Our hopes for peace and prosperity would vanish. We would live in unprecedented isolation. We

would

would live in growing poverty. He would live in growing fear.

The mathematics of the present situation are austere. The world is this year buying just twice as much from the United States as it is able to sell to us, and is still far from getting all it needs. The difference is being paid for this year largely by United States through emergency financing already authorized, and in part by foreign governments who are drawing down their extremely limited reserves of gold and foreign exchange. But the prospects are that the foreign need for imports of commodities will be as great next year and the year after that as in 1947, while the ability of foreign countries to supply commodities to us in exchange will be very little increased over 1947.

This will mean sharp economic and political crisis unless we in the United States are prepared to continue to bridge the gap in 1948 and 1949 with further loans or grants-in-aid. Even the present level of supply of commodities is far below what is needed abroad to keep people healthy and warm.

Nor is this situation one that we can wait until late in 1948 to think about. The overall figures of international finance ~~has~~ tend to conceal

individual

individual stresses and strains more acute than the general average.

Moreover, political crisis based upon bankruptcy does not wait until the last dollar is spent. It rides upon the wings of prospects and precedes the empty till by months or years.

We must therefore be prepared, if we wish to have a world in which we can ourselves be prosperous or secure, to consider and to respond to heavy additional requests for foreign aid in the next twelve to twenty-four months.

What is the United States trying to accomplish with its financial and economic assistance to foreign countries? What principles are guiding the United States Government as it seeks to help the world back to recovery? What is our design for reconstruction?

It is plain that with a limited supply of commodities and limited funds available for reconstruction, the United States cannot aid all those who need or ask for help. And it would be senseless to proceed upon the basis of first come first served. We ~~must~~ have therefore, and we do have, a definite conception of the kind of world we would like to see re-built, and our policy and our actions are directed towards achieving that kind of a world.

B E H

Our conception of the kind of world we would like to see re-built includes improvements on the pre-war model. We have learned some things in the last quarter century about what makes for greater peace, prosperity, and happiness in this world. We are trying to build some of these improvements into the peace.

A principle that is guiding the United States in granting reconstruction aid was stated by President Truman in his special message to Congress on March 12. Said the President: "One of the primary objectives of the foreign policy of the United States is the creation of conditions in which we and other nations will be able to work out a way of life free from coercion." And in elaboration of that principle, the President said: "I believe that it must be the policy of the United States to support peoples who are resisting attempted subjugation by armed minorities or by outside pressures. I believe that we must assist free peoples to work out their own destinies in their own way. I believe that our help should be primarily through economic and financial aid which is essential to economic stability and orderly political processes".

This is not a structure or plan of reconstruction. It is one of the principles that will guide us in making reconstruction aid available to foreign

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foreign countries. It means that top priority for American reconstruction aid will be given to free peoples who are seeking to preserve their independence and democratic institutions and human freedoms against any kind of extremism or totalitarian pressure, either internal or external.

Policy based on this principle is not negative. It is not against any country. It is a vigorous, positive policy for freedom and democracy. It recognizes that extremism flourishes in an atmosphere of economic disorganization and human want, that freedom and democracy and peace are difficult or impossible under such conditions. It recognizes that it is to the interest of all free peoples to pitch in with the economic assistance necessary to allow freedom and democratic institutions to exist and grow in needy countries. This is a liberal doctrine that does more than talk freedom and democracy. It actively supports them by strengthening their economic bases.

This policy has been alleged by some both at home and abroad to mean that the United States is imperialistic, that it is building up a coalition or a bloc of nations against another country.

These are not true. The United States is not interested in or engaged

in organizing or building any coalition or block whatever. All we are interested in is the building up of a world of free and independent and self-governing peoples in the belief that only in this way can peace be preserved in this world.

We do not seek imperialistic control. We reject such control. We merely seek to help peoples and nations to preserve their independence and their democratic institutions against control by any minority group or any outside power, including the United States. This we do in the interest of creating a stable basis for peace in the world.

The new structural design we seek to fill in through our reconstruction aid is that of the United Nations. With regard to each request for American reconstruction aid we ask these questions: Would the extension of aid in this instance be in accord with the principles of the United Nations? Would it advance the purposes for which the United Nations was founded? Would it therefore promote the authority of the United Nations?

What sort of men would we be, and what fate would we deserve, if, having agreed with other nations upon the design of a modern structure for cooperative international living, we should arbitrarily ~~divert~~ divert

R E I L O our

under allied observance and they concluded that the elections had been fair. Last fall there was a plebis/^{cite} on the King, and the opinion of the military observers there was also that it was a fair vote. The cabinet was reformed recently by the will of parliament. These are evidences of a real democracy in Greece. There is plenty of evidence that the government represents 75 to 80 percent of the electorate. The government is not a corrupt fascist regime.

See NEA's policy statement on Greece.

See the electoral report.

We are going to set up in Greece a economic organization to have in their hands virtual control of all the resources of the Greek state.

Why is Greece in danger of collapse?

What is the story of the EAM?

Instead of talking about the Russians encircling Greece, we should talk of Communist developments in all critical areas.

The theme of our new approach should be that the security of the United States depends upon our going to the aid of any and all democratic governments. Tommy Thompson said we should put this in the President's statement. We are not supporting any country in aggression but we will help them defend themselves.

We must make sure that the British go along with us.

We are certain to be charged with being anti-Soviet, with engaging in atomic diplomacy and with encircling the USSR.

Our line should be that war with the Soviet Union is not inevitable, but that if Communism ~~spread~~ spreads to all the critical areas where it threatens

of the EAM. These Communist activities in Greece have undermined the financial position and the tranquility of Greece.

Meanwhile, the Russians have been spurring extensive activity in Hungary, Italy, France, and Austria.

In France Communist infiltration has been extremely successful, so successful that it appears that any time the Russians want to pull the rug they can do so.

In Italy Communist influence has grown enormously; in Hungary it is advancing; and in Austria it is going very well.

We have arrived at a situation which has not been paralleled since ancient history. A situation in which the world is dominated by two great powers. Not since Athens and Sparta, not since Rome and Carthage have we had such a polarization of power. It is thus not a question of pulling British chestnuts out of the fire. It is a question of the security of the United States. It is a question of whether two-thirds of the area of the world and three-fourth of the world's territory is to be controlled by Communists.

After this presentation the Congressional delegation were extremely impressed and said that they would support a program designed to strengthen Greece and Turkey. But they wanted to know what definite program we had for meeting the situation and what it would cost. They also stipulated that this program be presented to the public in terms almost as frank as those in which Secretary Marshall had presented it to them.

It is therefore necessary in the next week to draw up an elaborate program and President Truman will discuss it with the Congressional delegation on week from today.

General Marshall has said that this matter must be presented to

Congress

Congress and the public in the frankest terms. Mr. Acheson says that we should not talk provocatively; specifically we should avoid accusing the Soviet Union directly but to talk instead about the spread of Communism without specifically tying it up to Russian direction.

In the public presentation the concept of individual liberty is basic, and the protection of democracy everywhere in the world. It is not a matter of vague do-goodism, it is a matter of protecting our whole way of life and of protecting the nation itself.

British action with respect to Greece is a part of the general program of British retrenchment throughout the world, as in Burma, Palestine, India, Egypt.

Our program in Greece should be: (1) to equip the Greek Army so that it can restore order, (2) make it possible for the Greeks eventually to reduce their military cost so that ~~they~~ will not be such a drain on the Greek economy, (3) bring about a reconstruction of Greek economy and administration so that it can be self-supporting.

Extensive legislation is required of Congress for relief, for delivering military equipment to the Greek Army, for personnel to carry out the economic and military program.

See the current issue of "World Report" for an analysis of the British white paper on their general economic condition.

At the SWMC meeting it was pointed out by Mr. Jernejen that Greece is a constitutional democracy. Elections were held last spring

for [unclear] [unclear]
Papers of Joseph Jones
presentation to
Robert [unclear]

DRAFT

At the White House meeting on February 27 the British notes were presented to the Congressional Delegation and the situation explained to them.

The first question that was raised was how much was this going to amount to--what are we getting in for. Some suggested that the matter should be presented to the public as aid to the Greeks for the Greeks are popular in this country, etc. But that argument didn't get very far.

The second question raised was, does this mean pulling British chestnuts out of the fire? There was a very adverse reaction when this point was raised.

At that point the Secretary and Mr. Acheson proceeded to a very frank discussion of the whole situation in the following terms: In the last 18 months the position of the democracies throughout the world has materially deteriorated. While Secretary Byrnes and Senators Connally and Vandenberg have been going from conference to conference trying to hold together the heart of international cooperation, the Russians have been engaged in the systematic policy of trying to encircle Germany and Turkey with Soviet dominated states.

The encirclement of Turkey has had two prongs. One has been directed at Iran and the other at Greece. The effort to dominate Iran has failed. The effort in Greece has had a large measure of success but is not yet decided. The Russian effort in Greece has been aided by the Communist rebellion on the northern boundaries centered in adjacent Communist dominated countries. It has also been aided by the activities

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E.O. 11652, Sec. 3(E) and 5(D) or (E)

Dept. of State letter, Aug. 10, 1973

By *ALF:llc*, NARS Date *10-24-73*

- 5 -

threatens now, war will be inevitable. This should be presented ~~it~~ as a way to avoid war.

General Arnold's statement: Greek geurillas now number 12,000. The Greek Army is unable to cope with these. Greece is the only country in the Balkans not under Soviet domination. If Greece falls, Soviet pressure on Turkey will be irresistable. If Greece and Turkey should fall, the Eastern Mediterranean, with its oil supplies, would be untenable to the democracies.

We should point out in our public presentation that we have been interested for some time in developments in Greece. We can point to the visit of the Greek Prime Minister in January, and to the Porter Mission to show our interest.

We should talk about the cost of doing what we are going to do as compared to the cost to us if Turkey and Greece should go.

See NEA for Communist activity in Greece.

See EUA for telegram from Paris on new book on Communism and Bedell Smith telegrams.

surrounding nations that a productive economic state be created in Germany, said: "The provisions of the plan for reparations and the level of German economy of March 1946 require to be revised . . . it is inadvisable to lay down maximum quota for production of German industries including the iron and steel industries."

The sum of all of this is: Germany, under the "level of industry" concept, unless she is to be allowed to starve, will be a drain on the taxpayers of other nations for years and years to come. In the meantime, if her light industries were built to become self-supporting, she would become an economic menace to Europe; if her heavy industries are allowed to function, she has an ability to export and would become an asset in Europe's recovery. To persist in the present policies will create, sooner or later, a cesspool of unemployment or pauper labor in the center of Europe which is bound to infect her neighbors.

We can keep Germany in these economic chains but it will also keep Europe in rags.

A NEW ECONOMIC POLICY

Therefore, I suggest that we adopt at once a new economic concept in peace with New Germany.

(1) We should free German industry, subject to a control commission, which will see that she does no evil in industry, just as we see that she does not move into militarism through armies and navies.

The difference between this concept and the "level of industry" concept is the saving of several hundred

million was granted by means of payment agreements between European countries; \$3,200 million was for settlement of lend-lease pipeline goods and the disposal of U.S. surplus property; the largest items were the two loans to Great Britain of \$3,750 million from the United States and Can.\$1,250 million from Canada. These various loans and credits were regarded as a preliminary for the doing of useful work by the Bretton Woods institutions with, later on, a revival of private lending, it being found, in particular, that a reconstruction of the world's "key currencies" was one of the first steps on the road to recovery.*

Thirdly, long-term loans for reconstruction purposes to be arranged through the International Bank for Reconstruction and Development. In April 1947 the dollar funds held by this Bank amounted to \$727 million, from which in May a loan of \$250 million was granted to France; in July debentures to a total of \$250 million are to be issued by the Bank, on the U.S. market. This total is to be made up of \$100 million 2½% 10-year bonds and \$150 million 3% 25-year bonds.

Finally, the maintenance of a stable monetary system to be assisted by the International Monetary Fund, the aim of which would not be to grant reconstruction credits but progressively to abolish monetary restrictions, at least for current transactions.

Mr Marshall pointed out that "the rehabilitation of the economic structure of Europe quite evidently will require a much longer time and greater effort than had been foreseen". The task confronting the European countries is thus to agree upon a joint programme setting out the measures which they themselves can and should take and the assistance required from abroad to secure a return of their "normal economic health". In other words, it might be said that the preliminary stage, before more permanent methods of financing will suffice, has not yet been concluded, extraordinary measures being still required. On the other hand, it is obvious that the extraordinary assistance which the United States may agree to extend to Europe will not be unlimited as to time and must, moreover, be clearly defined as to its purpose. It is, in other words, essential that the efforts which the European countries themselves will make as well as the

* Another item of financing (not included in the above figure of \$12,500 million) has been the rather unexpected cost of together more than \$1,500 million a year falling on Great Britain and the United States as occupying powers of Germany, Japan and other countries (part of the cost being for the relief of the local population).

assistance which will be granted by the United States should be so planned and adapted as to produce the most decisive results with as little delay and as moderate cost as possible.

Measures to overcome exceptional shortages of particular commodities.

II. One approach to the problem is to calculate the exceptional needs of Europe in terms of particular commodities, such as food, fuel, manures, machinery, etc., and in that connection to indicate:

- (i) the practical measures which can be taken by the European countries with a view to increasing, as promptly as possible, the output of products in short supply; and
- (ii) the additional quantities which the United States may be in a position to furnish for certain specific periods and on terms which will have to be laid down.

The approach to the problem in terms of particular commodities would seem to have been the manner primarily envisaged by the British and French Governments. In their note of invitation, they proposed the formation of various sub-committees to the Committee of Co-operation, which will deal with this so important aspect of the problem.

The present memorandum is not intended to enter into the different questions to which the work thus set on foot will give rise, but it wants to draw attention to some other aspects and, in particular, to make some observations referring to that part of the note of invitation in which it is stated that "examination of the balance of payments problems shall be undertaken by the Committee of Co-operation itself".

General cause of monetary dislocation.

III. It is, indeed, impossible to separate questions of shortages in terms of commodities (food, fuel, etc.) from the financial and monetary aspects, one reason being that the shortages lead to heavy imports and inefficient exports and thus to a disequilibrium in the balance of payments, which in its turn reduces the holdings of foreign currencies, notably of dollars.

In some respects, however, the exceptional shortage of a few essential commodities may be of decisive importance independently of the monetary situation. Thus, a deficiency in the coal supply and in

the supply of some indispensable feedstuffs may well arrest a possible increase in production (because of the lack of energy) or lead to a disastrous state of nutrition, and that would be the case even if there were no budgetary difficulties or lack of foreign exchange. In some countries (as, for instance, France and Italy) the rate of increase in production has for some time been considerably slowed down by the impossibility of obtaining sufficient imports of coal. In fact, one of the most efficacious means of improving the financial and monetary situation is then clearly to find a solution of this particular supply problem.

But this is not the whole story: as a rule, a part of the shortages of goods and services, and the consequent shortage of dollars, from which so many European countries are suffering must clearly be regarded as a direct result of the financial and monetary instability which the countries in question have not yet been able to overcome.

Mr Marshall himself emphasised strongly in his statement at Harvard that the physical destruction in Europe, great as it was, is "probably less serious than the dislocation of the entire fabric of European economy", and in this dislocation financial and monetary disorder plays an essential part. As Mr Marshall went on to observe, confidence in the local currency has been severely shaken in many European countries. The peasant is little inclined to sell his farm produce for money with which he cannot purchase the goods he needs. The normal division of labour between the towns and the countryside has broken down and the towns must often be supplied by imports which are out of proportion to the available foreign resources.

No investigation of the problem of shortages will proceed far before it is found that the extent to which supplies can be made available within Europe itself will largely depend on the progress in attaining monetary stability. It is, indeed, essential that, in the words of Mr Marshall, "the manufacturer and the farmer throughout wide areas must be able and willing to exchange their products for currencies, the continuing value of which is not open to question".

The problem to be solved is thus not simply one of making up, by means of deliveries in kind from abroad, the serious shortages with which the authorities are faced, for it cannot be left out of account that the shortages are greatly accentuated by the existing state of monetary insecurity. As always, monetary insecurity puts a brake on the volume of produce coming on to the market, encourages

parasitical activities and wasteful consumption and, moreover, makes it impossible to attain the best distribution of labour and other resources or to secure either a sufficient volume or a constructive use of current savings. Such monetary insecurity thus militates against an increase in production, on which Europe's welfare depends, both directly and indirectly, through the exchange of goods and services with other continents.

The effect exerted on the balance of payments by the inflationary tendencies prevalent in many European countries.

IV. The financial and monetary insecurity still so characteristic of conditions in many European countries is essentially the result of remaining inflationary tendencies. These tendencies are often quite plainly the sign of a serious disequilibrium in the public finances but there are sometimes less obvious, but equally important, instances where the disequilibrium relates not specifically to the budget but to the whole economy in that the national income in real terms, i.e. the total output of goods and services, does not suffice for the aggregate needs of current consumption, military and social charges, peacetime reconstruction and other investments. The result is then an excessive resort to the banking system with an artificial expansion of money incomes unmatched by any corresponding increase in the supplies of consumers' goods and with a consequent tendency to a rise in prices, which can, as a rule, be only imperfectly combated by a series of administrative measures, such as control and rationing. Experience shows that a disequilibrium in the national economy, if it is not kept within very narrow limits and especially if it is allowed to continue for a considerable time, has disastrous consequences for the supply position and the balance of payments. In a number of different ways, continued inflation leads directly and indirectly to an exhaustion of foreign reserves:

1. It is common knowledge that in several countries of Europe "hidden stocks" exist of foodstuffs and of manufactured articles. These stocks may not be large if taken individually but they would make a considerable addition if they could be brought to the markets. Experience shows, however, that very little effect may be expected from confiscations or other mandatory measures and that it is of no use to blame the manufacturers or the farmers as long as the money given in payment does not command confidence. There are cases on record when wheat was shipped to European countries although farmers in these countries were suspected of

having fairly large supplies, which, however, were inaccessible. Whenever the people in general are short of food and fuel, "the governments are forced to use their foreign money and credits to procure these necessities abroad" - a process which, of course, exhausts funds urgently needed for reconstruction.

2. An inflationary expansion of purchasing power at home (whether resulting from current budget deficits, too large a volume of public or private investments, or sudden sharp increases in wages and salaries unmatched by sufficient goods) acts as an attraction for imports and a brake on exports, the inevitable result being a continuous deterioration in the balance of payments. With the maintenance of fixed exchange rates - as has been the rule after the second world war - the inflationary expansion, moreover, tends to make the home currency overvalued and this in itself, as experience shows, is a most potent cause of excess imports and also of a flight of capital, which is unlikely to be wholly arrested by even the strictest control.

3. A distrust in the currency intensified by dwindling monetary reserves is then almost always accompanied by widespread hoarding of gold and foreign exchange and, generally, a disinclination to hold the national currency in any form and least of all as savings deposits.

4. The distrust naturally spreads abroad, with the result that no support worth mentioning will be obtained from foreign commercial credits or direct foreign investments.

5. The process of rapidly using up monetary reserves of gold and "hard currencies" cannot for long be offset by new foreign loans and credits for the simple reason that the exhaustion of reserves impairs the credit position of the would-be borrower. Governments are then driven to cut down imports and to stimulate exports. But measures of such a kind can only be regarded as temporary expedients, since they have the effect of aggravating instead of relieving existing scarcities. Indeed, they tend to widen the gap between a redundant amount of purchasing power and an insufficient supply of consumers' goods and may even make it harder to regain a balanced position.

It is only fair to say that the intimate relation between the methods of internal financing and the outcome of the balance of payments is being more and more understood. One European country after another

has found that while even mild inflation continues, the shortage of dollars resulting from the present exceptional needs of food, coal and other materials is being artificially increased by the persistence of financial deficits, with the consequent monetary instability. When, on the other hand, a country has been able to restore monetary stability and in that way also its credit position, there has been in several instances in the past a cumulative improvement, with the reappearance of previously hidden commodities on the market, a return of hoarded gold and exchange, an influx of foreign commercial credits, as well as a resumption of direct investments by foreign firms and, as reconstruction gathers momentum, an increased flow of internal savings available for constructive use. While foreign assistance is generally needed to bring about a reversal of the inflationary tendency, the reconstitution of monetary reserves, once confidence has begun to be restored, may thus be helped by a diversity of relatively small though numerous transactions. Since it is important that the aid obtained should be used in the most efficacious manner, a financial reconstruction designed to restore confidence in the currency is an indispensable step in order to enable the European countries to derive the greatest possible use from their own resources and thus to keep their dollar requirements within reasonable limits.

Comprehensive programmes for financial and monetary reconstruction.

V. One of the most urgent tasks is thus to work out (if need be with the help of independent experts) in each country where the inflationary tendencies persist a comprehensive programme for financial and monetary reconstruction containing the following main features (well known from the stabilisation efforts after the first world war and again of importance at the present time):

1. The most important task is to establish sufficient budgetary equilibrium to exclude the necessity for direct and continuous resort by the Treasuries to central banks, as cover for either ordinary and extraordinary expenditure or deficits arising from public services and nationalised industries.

Since what is spent by public bodies reduces the resources available for other purposes, the level at which the budget is balanced is also of importance and, therefore, the opportunity afforded by reconstruction should be used for a renewed and searching scrutiny of all forms of government outlay (military expenditure being a heavy item as long as no real peace has been restored). In the stabilisation programme a part of the foreign

resources may be appropriated for the express purpose of covering a budget deficit until the measures by which budgetary balance may be achieved become effective so that recourse to the central bank for meeting government expenditure may be stopped for good and all.

2. Outlay for investment (either by the government itself or through private channels) should be kept within the limits of domestic savings plus the amounts obtained for investments from the foreign assistance. For the time being, even very useful outlay may have to be postponed but this must be done in realisation of the fact that budgetary balance is the best means to bring about a reversal of the pernicious tendencies which impede reconstruction. It is, indeed, futile to try to restore orderly markets or to achieve industrial progress by a plan for investments without having secured monetary stability, for the monetary unrest is likely to defeat every constructive effort.

3. Besides deficit financing and an overdose of public and private investment, an increase in money wages, unwarranted by increased supplies of goods and services, may be an additional cause of inflation and, indeed, a cause which it is difficult to master while exceptional shortages remain. In so far as the different countries will be able to obtain fresh imports in application of the Marshall proposals, an opportunity may be provided to break the vicious spiral of rising wages and prices without anybody benefiting.

4. A cleaning-up of the position of central banks, including a strengthening of their monetary reserves. This involves, inter alia, that

- (i) some repayment be made whenever a central bank is in possession of very large holdings of government bonds or has other important claims on the government (e.g. arising from enforced payments to Germany during the war);
- (ii) an amount of gold or foreign exchange should be set aside out of the foreign assistance for the purpose of strengthening monetary reserves - this to be done without the creation of a corresponding amount of purchasing power, i.e. without the government account at the bank being credited. The central bank may suitably receive the resources in question as part repayment of its earlier advances to the government or other claims (see (i) above).

Other commercial and financial measures.

VI. If inflation is arrested, there should be a less acute current strain in the balances of payments. Foreign assistance would then be used essentially for capital investment as a supplement to domestic savings. There are, however, other difficulties affecting the balances of payments, which must not be overlooked:

- (i) The flow of goods may be impeded by insurmountable obstacles to trade. These problems are being dealt with by the I.T.O., but it is possible that specific regional arrangements applicable to certain parts of Europe may establish definite areas of "freer trade". This cannot, however, be a short-run development; and then it is well not to forget that today the most formidable hindrances to normal trade are found in the foreign exchange regulations and the dwindling monetary reserves, necessitating a cut in imports - hindrances which should be partially, if not wholly, removed by the application of the Marshall programme.
- (ii) Extensive foreign liabilities, directly or indirectly a result of the war and thus of an unproductive character, may constitute too heavy a burden in the balance of payments of some countries. In its seventeenth Annual Report, the B.I.S. said that "the commitments represented by accumulated sterling balances, taken together with other outstanding liabilities of an official character resulting from the war and its immediate aftermath, attain a total as high as that which proved so intractable after the first world war". In agreements concluded between Great Britain and individual countries, the final settlement of sterling liabilities has been postponed to a later date, while arrangements are made for releases of certain specified amounts.

Adjustment of prices and exchange rates.

VII. The balance of payments is, however, affected by some other problems, the solution of which cannot well be similarly postponed, the most important being the establishment of realistic rates of exchange among the different European countries. Experience has shown that, when a country's rates of exchange are widely out of line with the relative purchasing power, the flow of goods is impeded, with a reduction especially of exports and a growing disequilibrium in the balance of payments, while the general structure of

costs and prices is badly distorted and often no longer capable of serving as a guide to production. The effects of an overvalued currency make themselves felt also in other countries, since the products of these other countries will seem very cheap indeed for the inhabitants of the country with the overvalued currency as long as these inhabitants are able to obtain foreign exchange at the artificial rate. The products of the other countries will thus be exposed to a strong demand, which will tend to raise their prices, until one day no more foreign exchange will be allowed for such purchases, and the trade in question may virtually come to a sudden stop, which again is undesirable.

It is, of course, difficult to tell what the true rates are before production has risen and prices have become more stabilised and, for that reason, it is sometimes thought more appropriate to postpone an adjustment of exchange rates until the situation has become more clear in these respects. If that line were adopted, any monetary reform at the time when foreign assistance is first received might lack finality and thus leave a state of doubt and uncertainty still prevailing. But the unfortunate result might then be that the curative forces in the form of a return of hoarded gold and foreign currencies, etc., would hardly be working and in that way recovery would be delayed. For these reasons it is usually advisable to make a judicious valuation and adjust the exchange rates at once in order to avoid a situation where, some six or twelve months after the reform, the authorities have to come back and disturb the public with an alteration in the rates.

Delay in one important country, moreover, deranges the rate structure of other countries. There are reasons to think that the steep post-war price rise in the United States is now over and that perhaps the stage has been set for greater stability with a gradual return to buyers' markets. This makes it more important for European countries not to retain unrealistic rates.

Finally, stress should be laid on the importance of restoring a natural balance in the cost and price structure. In more than one country relatively low ceiling prices have been fixed for necessities, while prices of luxury goods have been allowed to rise considerably, often in response to keen demand in free markets. As a result, less necessities and more luxury goods have been produced, the governments being obliged to turn increasingly to foreign supplies for meeting the barest needs in food and clothing. As these goods have to be allocated,

more controls and priorities are imposed, with often less and less chance for prices to act as a stimulus for the most wanted production.

Transfer-
ability of
an increasing
number of
currencies.

VIII. Once inflation has been clearly arrested and a balance restored between the cost and price structures of different countries, with rates of exchange corresponding approximately to the purchasing-power parities, it should be possible to enlarge relatively quickly the field of transferable currencies, as far as current transactions are concerned, and to do that with the object in view of increasing the number of European countries with such transferable currencies and of accepting an ever greater volume of transactions as being "for current account".

Such a transferability is, of course, expressly provided for (after a maximum delay of five years) in the Articles of Agreement of the International Monetary Fund, but few European countries are in a position to fulfil the conditions of such transferability and none will be able to do so before they have put their public finances into good order. To advance the date when transferability can become possible ought to be one of the essential purposes of the application of the Marshall programme, since this would be one of the best means of relieving the dollar shortage in Europe and of limiting the assistance of the United States to what is strictly necessary.

Combination
of foreign
assistance
with serious
efforts in
individual
countries.

IX. The financial policy thus to be adopted should provide a basis for judging the true needs of countries and also for industrial development stretching over a number of years. Such a policy would presuppose foreign assistance but only in combination with serious efforts in the individual countries.

Financially, the foreign assistance would be used:

- (i) to cover, without inflation, the remnants of the current budget deficit during the period of rehabilitation;
- (ii) to strengthen the monetary reserves; and
- (iii) to continue necessary investments pending the development of domestic savings.

If the assistance is given in terms of goods, the financial reform may still be carried through, although then some special precautions will be needed. When goods are imported and sold on the domestic market, not only are authorities relieved from using their own reserves for the acquisition of these goods but the proceeds of the sales can be

used to cover a budget deficit. To obtain the full anti-inflationary effect from such imports and sales the imported goods must be sold at current market prices (and not at artificially low "political" prices, for then less currency would be withdrawn from circulation and therefore less be available for other badly needed uses as, for example, the cover of the budget deficit). Even when assistance is given in terms of goods, for reconstruction to be successful it is still necessary to draw up and put into effect a complete stabilisation programme, as outlined above. The two approaches (in terms of requirements of goods and in terms of financial reconstruction) are in no way contradictory. They have, in fact, to be combined, for only then will the assistance rendered "provide a cure rather than a mere palliative" (in Mr Marshall's words).

Naturally, the form which the assistance should take must be considered also from the viewpoint of what is most suitable to the United States, taking into account that large exports may cause a strain on the American commodity markets. In so far as the assistance is rendered in dollars or gold, it is likely that a part would be retained in monetary reserves and would, to that extent, not appear as active purchasing power on the American market but simply result in a certain redistribution of gold reserves. Up to a point, it may, thus be most economical for the assistance to take the form of grants in dollars. A successful financial stabilisation would, in any case, ensure that the help in raw materials can be limited to genuine needs by putting an end to such artificial shortages as are merely a consequence of continuing inflation.

The present dollar scarcity is enhanced by the fact that apart from the Swiss franc, there are few, if any, currencies which are readily available for payments anywhere and will, therefore, be held without hesitation. The more currencies become readily convertible and thus - to use Mr Marshall's words - become "currencies, the continuing value of which is not open to question", the easier it will be to solve the problem of the dollar scarcity without new restrictions, which would be disastrous both for the United States and for the peoples of Europe. It should clearly be attempted to reverse the policy of cutting down imports which has been forced on a number of countries by the drain on their monetary reserves. It would then be possible to realise the following main objectives of American policy:

- (1) to restore an international monetary system of sufficient stability for the most rigid controls to be removed - at least those affecting current

transactions (the essential purpose of the International Monetary Fund);

- (ii) to reduce barriers to foreign trade, in particular quantitative restrictions and various obnoxious forms of discrimination (one of the provisions of the lend-lease agreements and now the principal objective of the International Trade Organisation); and
- (iii) to contribute by sound loans to the reconstruction of war-stricken countries (one of the objectives of the International Bank for Reconstruction and Development).

Different stages in tackling the problems.

X. The methods of coordination applied by the European countries participating in the Marshall programme will be decided upon at the July meetings in Paris.

The first task will be to prepare a plan for action in the autumn of 1947. But only a limited number of problems will find their solution at so early a date. There are, of course, greater tasks confronting the European countries, including such questions as a freer movement of population, which may more easily be solved on a regional basis for Europe than for the world as a whole. Some of these questions may suitably be dealt with by more permanent institutions than the ad hoc bodies set up to handle the various aspects of the Marshall programme. There should thus be three stages:

- (i) the immediate elaboration of a joint programme for European inter-aid as regards specific commodities and areas, as well as the need of outside assistance;
- (ii) the elaboration and application of financial reconstruction programmes for the different countries (also with some outside assistance); and
- (iii) provision for the realisation of wider objectives of collaboration in Europe.

The President's Economic Mission to Germany and Austria

REPORT NO. 3. THE NECESSARY STEPS FOR
PROMOTION OF GERMAN EXPORTS, SO AS TO
RELIEVE AMERICAN TAXPAYERS OF THE
BURDENS OF RELIEF AND FOR ECONOMIC
RECOVERY OF EUROPE.

HERBERT HOOVER

INTRODUCTION

Inquiry into the economic policies in Germany which would relieve financial support from the United States was one of the subjects assigned to my mission to that country. Aside from a mass of information and statistical material secured on this journey, I have been familiar with German economic problems over many years, including my experience before and after World War I. In view of the gravity of the crisis which confronts the world, it would be an ill service if I did not state my conclusions fully and frankly.

These conclusions are not the product of sentiment nor of feeling toward a nation which has brought such misery upon the whole earth. They are not given in condonement of the enormity of her crimes. They are the result of a desire to see the world look forward, get into production and establish a lasting peace. They are based upon the stern necessities of a world involved in the most dangerous economic crisis in all history.

At the present time the taxpayers of the United States and Britain are contributing nearly \$600,000,000 a year to prevent starvation of the Germans in the American and British zones alone. The drain is likely to be even greater after peace unless the policies now in action are changed. Therefore, entirely aside from any humanitarian and political aspects, policies which will restore productivity in Germany and exports with which

to buy their food and relieve this drain upon us are of primary importance.

But our economic interest is far wider than this. We desperately need recovery in all of Europe. We need it not only for economic reasons but as the first necessity to peace. The United States, through loans, lend-lease, surplus supplies, and relief, ~~has~~ in the last two years, ~~has~~ spent, or pledged itself, ~~to~~ over fifteen billions of dollars ~~to spend,~~ in support of civilians in foreign countries. Even we do not have the resources for, nor can our taxpayers bear, a continuation of burdens at such a rate.

There is only one path to recovery in Europe. That is production. The whole economy of Europe is inter-linked with German economy through the exchange of raw materials and manufactured goods. The productivity of Europe cannot be restored without the restoration of Germany as a contributor to that productivity.

SOME ASSUMPTIONS

In order to offer constructive conclusions as to economic policies which will relieve the American taxpayer and will promote economic recovery in Europe, I make six assumptions, which I believe will be accepted by sensible people. They necessarily include certain political aspects which underlie all these economic problems.

First. I assume that we wish to establish a unified federal state in Germany, embracing mainly the present American, British, Russian and French military occupa-

tion zones, with economic unity and free trade between the states. I shall refer to this area as the "New Germany".

Second. I assume that our objective must be to clear German life of the Nazi conspirators and to punish those who have contributed to this conspiracy, which murdered millions of people in cold blood and brought this appalling disaster upon the world.

Third. I assume that we will not make the major mistake of Versailles, but will complete absolute disarmament of the Germans so that they shall not be able again to engage in aggressions; that this disarmament will embrace destruction of all military arms, fortifications and direct arms factories, with certain control of industry; that the Germans will have *no* army, *no* navy, and *no* air forces, retaining only a constabulary in which no Nazi or previous army officer may be employed; that this disarmament must be continued for a generation or two, until Germany has lost the "know-how" of war and the descent of militarism through birth.

Fourth. I assume that these requirements must be safeguarded by international guarantees and effective police service by the nations.

Fifth. I assume, in our own interest and that of Europe, that we wish to restore the productivity of the continent, that we wish to revive personal freedom, honest elections and generally to reconstruct the German people into a peace-loving nation cooperating in the recovery of Western civilization.

Sixth. I assume that the United States will not join in such guarantees and policing unless the treaty with Germany is so concluded that it contributes to the restoration of productivity and lasting peace in Europe and promptly relieves us of drains upon our taxpayers.

THE GERMAN ECONOMIC PROBLEMS

The German economic problems have two aspects:

First, the long-view, broad economic policies toward the New Germany which alone can produce the reconstruction of Europe and peace.

Second, our immediate problems in the joint Anglo-American military zones during the interregnum pending peace.

I therefore divide this discussion into these two parts.

PART I.

THE LONG VIEW ECONOMIC PROBLEM

The long view economic problems involved in the peace with the New Germany and its aftermaths are greatly affected by war destruction, the boundary settlements for the New Germany, the plant removals for reparations, and the policies with respect to "war potential" of industry.

These effects may be summarized:

1. There was considerable destruction of non-war industry from the air and otherwise during the war. The loss to peaceful productivity has not been determined, but it is considerable.

2. The proposed annexations to Poland and Russia, and the possible annexation of the Saar Basin by France, will take from Germany, as compared to 1936,* about 25% of her food supply, about 30% of her bituminous coal and about 20% of her manufacturing capacity.

3. The population of Germany in 1936 was about 68,000,000. The population of the new Germany by 1949 will be about 71,000,000, due to the expulsion of Germans from the Polish and Russian annexations, from Czechoslovakia, Hungary, Austria, Yugoslavia, Roumania and the return of prisoners into this area.

4. The Allied economic policies toward Germany are

*I have adopted 1936 as a basis for economic comparisons because it was a full year before German industry was distorted by her annexations and her most intensive armament activity.

of two categories: the first involves world safety, and the second, reparations for wrong done:

a. There has necessarily been, or will be, a demolition of all arms plants as part of disarmament. This destruction, however, has included some plants which might have been converted to peaceable production.

b. Reparations have been provided by assignment for removal to the different allies of certain percentages of "usable and complete industrial equipment." What proportion of Germany's peaceable productive plant has been, or is, in the course of removal in the French and Russian zones is not known. Certainly they have been very large from the Russian zone. The total for all Germany amounts to an important segment of its peaceful productivity. These removals include a large amount of "light industry" (producing mostly consumers' goods) as well as "heavy industry" (producing mostly capital goods). The removal of plants from the American and British zones has been halted because of the refusal of Russia and France to co-operate in inter-zonal economic unity as provided for at Potsdam.

5. In addition to the above courses of action, there have been general policies of destruction or limitation of possible peaceful productivity under the headings of "pastoral state" and "war potential." The original of these policies apparently expressed on September 15, 1944, at Quebec, aimed at:

"converting Germany into a country principally agricultural and pastoral,"
and included,

"the industries of the Ruhr and the Saar would therefore be put out of action, closed down. . . ."

JCS] This idea of a "pastoral state" partially survived in JCS Order 1067 of April, 1945 for the American zone. It was not accepted by the British. The "pastoral state" concept was not entirely absent in the Potsdam Declaration. It was partially ameliorated or its name changed for another concept, the "level of industry," developed by the agreement of March 26, 1946, and signed by Russia, Britain, France and the United States. This agreement was a compromise between the drastic terms proposed by Russia and France and the more liberal terms proposed by the other two nations.

One major theme of this "level of industry" concept is to destroy Germany's "war potential." Under this concept certain industries are to be blown up or prohibited, others are to be limited as to production. The emphasis was placed upon the limitation of "heavy industry" with the view that Germany could export enough goods from "light industry" to buy her food and necessary raw materials.

Such] The absolute destruction or prohibition included [includes ocean-going ships, shipbuilding, aircraft, ball bearings, aluminum, magnesium, beryllium, vanadium and radio-transmitting equipment, together with synthetic oil, ammonia and rubber. ~~Destruction of some of these~~ may be essential to disarmament. These exceptions are not included in the discussion which follows. [Some of these provisions

Beyond these prohibitions, however, the "level of industry" concept ~~provided~~ elaborate restrictions, mostly [provides on heavy industry. The following items are illustrative:

Iron and steel production to be reduced from 19 million tons (as in 1936) to a capacity of 7.5 million tons, with a maximum production of 5.3 million tons and only the "older plants" to be used.

Heavy machinery production to be 31% of 1938

Light machinery production to be 50% of 1938

Machine tools to be 38% of 1938

Electrical machinery to be from 30% to 50% of 1938

Agricultural implements to be 70% of 1936

Automobiles to be 10% of 1936

Trucks to be 67% of 1936

Basic chemicals, including nitrogen, calcium carbide, sulphuric acid, chlorine and alkali to be 40% of 1936

Cement to be 65% of 1936

Electric power produced to be 60% of 1936

No new locomotives until 1949.

Some "light industries" were also to be limited:

Textiles to be 77% of 1936

Paper to be 65% of 1936

Boots and shoes to be 70% of 1936

Precision instruments and optics to be . . . 70% of 1936

Miscellaneous chemicals to be 70% of 1936

Pharmaceuticals to be 80% of 1936

Dyestuffs (export) to be 58% of 1936

THE CONSEQUENCES TO FOOD SUPPLY

We may first examine what has happened, and what will happen, to the German food supply under all the circumstances of annexation and industrial controls.

Germany in 1936 was, by most intensive cultivation, able to produce about 85% of her food supply. This 85% has now been reduced by 25% through the Russian and Polish annexations, or is down to about 64% because even a larger population is to be concentrated in the new Germany.

Her production, however, was greatly dependent upon intensive use of fertilizers. The new Germany will require at least 500,000 metric tons of nitrogen and 650,000 tons of phosphoric anhydride, she having sufficient potash.

Under the level of industry agreement, the domestic production of nitrogen eventually would be reduced to under 200,000 tons; the production of phosphoric anhydride, would be reduced to about 200,000 tons. A larger production of nitrogen is allowed pending an opportunity to import. Part of this reduction is due to the "level of industry" steel reduction from which some nitrogen and a large percentage of phosphoric anhydride requirements were obtained as by-products.

From these figures it is obvious that a great discrepancy exists between minimum agricultural needs and the possible fertilizer production under the "level of industry" plan. If we persist in these policies, unless there are large imports of fertilizer, Germany's food production is likely to drop under 60% of her requirements even with an austere diet.

New Germany, if there is to be a will to work, to maintain order and to aspire to peace, must have an average food supply of at least 2600 calories per person per day, with adequate fats and protein content. (The British

average being 2800-2900 calories at present and pre-war Germany about 3000 calories.)

Taking the above limitations into consideration and based upon actual experience in the American and British zones, and extending that experience with adaptations to the Russian and French zones, the indications are that New Germany would need, at present prices, to import over \$1,250,000,000 annually in food and animal feed alone.

At the end of the war Germany had a very large nitrogen capacity. Despite losses from war destruction, its potential production was still about 700,000 tons per annum. This capacity, if it had been preserved, would have supplied not only her own needs but large exports to neighboring countries as well. Fertilizers are now sorely needed all over Europe for crop restoration. Therefore, through the fertilizer reduction Germany not only loses in her own food production but her export potential to pay for food, and the crops elsewhere in Europe are reduced.

CONSEQUENCES OF "LEVEL OF INDUSTRY" UPON "HEAVY INDUSTRY"

The effect of the agreed "level of industry" is stated in American official reports that "The 'heavy industry' products for which Germany was noted will virtually disappear from her exports."

I have exhaustively examined the production and exports of Germany over some years in the light of this "level of industry" and they amply confirm this state-

ment. What the result may be is indicated by the fact that her exports during peace from now-restricted "heavy industries" comprised between 60% and 70% of the total German exports. In 1936, for instance, a generally prosperous year, they amounted to about \$1,900,000,000 out of a total of about \$2,700,000,000, both figures converted into present prices. Under the "level of industry" most of this 60-70% is to be abolished, and she must pay for most of her imports from exports of "light industry." (comprised Germany

Germany must not alone import food and animal feed, but also reduced amounts of copper, lead, zinc, iron ore, leather, cotton, wool, and other raw materials. Due to the prohibitions, she must import all of her oil and rubber, and considerable nitrogen for fertilizers.

It is indeed a cynical fact that today we are supplying Germany with oil and nitrogen at the expense of the American and British taxpayer, at a rate of \$70,000,000 per annum, which, except for the "level of industry" and the Russian refusal of zonal cooperation, Germany could have produced herself.

CONSEQUENCES UPON LIGHT INDUSTRY

As I have said, the assumption is that exports from the German "light industry," from coal and native raw materials, such as potash, can pay for her imports of food and other necessities. There are two reasons for believing this assumption to be completely invalid.

Had there been no loss of "light industry" plants by annexation, had there been no destruction of them by

war, had there been no removals for reparations, they could not have produced enough exports to pay the food bill alone. And the situation is made doubly impossible by the restrictions now imposed on what "light industry" is left, as, for instance, on textiles.

If Germany is to buy food and the necessary imports of raw material for the "light industry," she would require not only complete restoration to pre-war level in "light industry" but a much larger equipment than she had even before the war.

Then Germany, with the expansion of these industries, would be in a competitive field of consumers' goods with all the rest of the world whose "light industries" have been little damaged by war.

SOME ECONOMIC ILLUSIONS .

There are several illusions in all this "war potential" attitude.

a. There is the illusion that the new Germany left after the annexations can be reduced to a "pastoral state." It cannot be done unless we exterminate or move 25,000,000 people out of it. This would approximately reduce Germany to the density of the population of France.

b. There is an illusion in "war potential." Almost every industry on earth is a "war potential" in modern war. No industry (except direct arms manufacture) is a war potential if the energies of a people are confined to the paths of peace. If Germany be disarmed in the way I have assumed above, there must be a control commission to see that they do not have any army or any navy.

And two score of intelligent men, as part of that commission, could see that there are no arms production and that no industry is manufacturing or storing materials for evil purposes. Moreover, industry is not likely to waste its substance, either by storing or manufacturing for war, when there is no army or navy to use it.

The question here is not "level of industry." The real question is whether the Allied nations will stick to their abolition of militarism itself in Germany. If they do that, there is little danger from "war potential" in industry.

c. Another illusion is that the "light industry" in Germany can be expanded to a point where she will be able to pay for her imports. In my view, it cannot be done for years, and even then it is doubtful in the face of competition with the "light industries" of other parts of the world.

d. The over-all illusion is that Germany can ever become self-supporting under the "levels of industry" plan within the borders envisioned at present for New Germany.

e. A still further illusion is that Europe as a whole can recover without the economic recovery of Germany.

CONSEQUENCES TO EUROPE GENERALLY

Thus there is a still wider aspect of this "level of industry"—the needs of the rest of Europe. Germany had been for a century one of the great European centers of production of capital goods—"heavy industry," which I may repeat are construction materials, factory equipment, railway equipment, electrical and heavy machinery. The other nations of Europe are in desperate

need of such goods for reconstruction from war damage. Moreover, a considerable part of the European equipment on these lines is German-made, and today, they cannot even get replacements and spare parts, in consequence of which their productivity lags.

From the standpoint of other nations, the expansion of "light industry" to a point of self support for Germany will, by competition, injure these industries in the rest of Europe. On the other hand, the products of "heavy industry" is Europe's first necessity for recovery.

It must not be overlooked that Germany was the market for every nation in Europe and such a reduction of her economy will tend to demoralize the industries and employment in those countries. For instance, Germany was the market for over half the exports of Turkey and over one-third those of Greece. In consequence, their loss of this market contributes to increase the relief they seek from us now.

Another illustration is the proposed limits on steel. Large and efficient steel and iron plants, undamaged or only partly damaged, are standing idle in Germany. Formerly the Germans imported millions of tons of iron ore from France and Sweden. These mines, under the "level of industry," must remain idle until a new steel industry is built elsewhere. That will require years and an amount of capital that is not in sight. In the meantime, Europe needs steel for reconstruction as she never did before.

To indicate the anxiety of surrounding States a memorandum of the Netherlands Government of January 1947, in presenting the absolute necessity to the

10th July 1947.

BASLE

C.B. 199

THE MARSHALL PROPOSAL
OF ASSISTANCE TO EUROPE

The need of additional measures, of an exceptional and transitory character, in favour of Europe.

1. In his speech of 5th June 1947, Secretary of State Marshall said that "before the United States Government can proceed much further in its efforts to alleviate the situation and help start the European world on its way to recovery, there must be some agreement among the countries of Europe as to the requirements of the situation and the part these countries of Europe themselves will take in order to give proper effect to whatever action might be undertaken by this Government". The rôle of the United States would consist of friendly aid in the drafting of a European programme and of later support of such a programme so far as it may be practical for the United States to do so.

At the time when hostilities ceased, the following programme of humanitarian aid and new foreign lending was already in force or envisaged in support of countries in need:

Firstly, various forms of humanitarian assistance for war-stricken countries, supplies being provided primarily by the military governments and UNRRA but also by the Red Cross and by a few countries individually. The total aid was probably the equivalent of around \$5,000 million, the benefits as far as Europe was concerned being, in fact, reserved for the centre and the eastern part of the continent, none going to the peoples on the Atlantic seaboard.* The British Empire as a whole contributed about one-quarter of the funds, while the United States furnished about 72 per cent.

Secondly, a series of governmental long and short-term loans and credits designed to cope with some pronounced post-war difficulties, amounting in the aggregate to about \$12,500 million (authorised) up to the end of 1946. Of this total, over \$500

* While France, Holland, Belgium, Denmark and Norway made no contributions to UNRRA's operating funds, they declared that they did not expect any benefits for themselves from such funds.

millions of dollars a year to the American and British taxpayers. It is the difference between the regeneration and a further degeneration of Europe.

(2) The removal and destruction of plants (except direct arms plants) should stop.

(3) A further obstacle to building Germany as an essential unit of European economy arises from the Russian Government's acquiring a large part of the key operating industries in their zone. Germany in peace must be free from ownership of industry by a foreign government. Such ownership can thwart every action of control or of up-building by joint action of other nations. German industry must be operated by Germans if any international control is to work, if she is to recover production and is to serve all nations equally.

(4) There can be no separation or different regime of the Ruhr or Rhineland from the New Germany. That is the heart of her industrial economy. Any control commission can dictate the destination of coal or other exports from that area and even such control would not be needed after the era of scarcity passes from Europe.

PART II.

THE INTERREGNUM BEFORE PEACE

How long it may be before there is such a constructive peace with Germany, no one can tell. It may be long delayed. In the meantime, we are faced with the feeding of the people in the Anglo-American zones on a level just above starvation until we can develop enough export goods from these zones so that the Germans may pay for their food. I have said, American and British taxpayers are called upon for about \$600,000,000 for relief.

(a year

We have an admirable staff in Military Government of Germany under Generals Clay and Draper but their administration is constantly frustrated in building up the needed exports to pay for food and minimum raw material imports. A large part of these delays is due to the following:

a. The Russians and the French have failed to carry out the provisions of the Potsdam agreement for economic unity in the four zones. The Russian zone ordinarily produces a surplus of food but that surplus is used elsewhere, thus increasing the burden of imports on the Anglo-American zones. Both the Russian and French zones are producing industrial commodities which would relieve necessities in the Anglo-American zones and could contribute to exports with which to pay for food.

b. The inability to determine what specific plants are to be the victims of "level of industry," or destruction or the removal for reparations, produces stagnation because the Germans do not know where to begin work.

c. There is lack of working capital with which to im-

The net effect is that the United States and Britain, through relief, are paying Russian and French reparations.

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port raw materials for such industries as are allowed to function.

d. An inflated currency and no adequate banking system hampers all forward movement in such industry as is left.

While }
are }
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tion, while necessary and important, ~~also~~ limit recovery,
but are so involved as not to warrant description here.

{ certain phases
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CONCLUSION AS TO THE BI-ZONAL ADMINISTRATION

If, however, we cannot get a quick and sound peace on the lines I have recounted, the Anglo-American zones should abandon the destruction of plants, the transfer of plants for reparations and the "level of industry" concept, and start every plant, "heavy" as well as "light," which can produce non-arms goods. This will relieve far more rapidly great costs to our taxpayers; it will do infinitely more for Europe than American loans and charity.

Indeed the Congressional Committee on Postwar Economic Policy urged, on December 30, 1946, that the "levels of industry" be ignored wherever they conflict with exports so that there may be earlier recovery and payment for food.

The violation by Russia and France of the agreement for economic unification of the four zones of military occupation and the additional burdens this imposed upon us in consequence certainly warrant our ignoring all agreements for "level of industry," transfer and destruction of non-arms plants.

If this interregnum is to endure for long, we could build a self sustaining economic community out of the Anglo-American zones alone. This could be only a temporary expedient, not a final solution. Building a lasting peace in Europe should be our objective.

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March 24, 1947

Dear Mr. President:

I read with a lot of interest your Report No. Three -
The Necessary Steps for Promotion of German Exports
and it is a most interesting document.

x198
x275-A

I do appreciate most highly your willingness to go into
this matter and I also appreciate the thoroughness with
which you have covered the ground.

I am hoping we can work out the economic situation in
Germany so as to reestablish the European balance of
trade. At Potsdam I suggested to the conference that
the Rhine and Danube should be free for the transport
of merchandise to all those countries that had riparian
rights on them and I am sure that it is going to be
necessary to reestablish the economic balance in Europe
before we can possibly reestablish the political balance.

x396
x190 Potsdam
conference
x173

I think you have made a great contribution toward that
end.

Sincerely yours,

HARRY S. TRUMAN

Honorable Herbert Hoover ← x PP795
The Waldorf-Astoria Towers x 315
New York, New York

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INTRODUCTION

Inquiry into the economic policies in Germany which would relieve financial support from the United States was one of the subjects assigned to my mission to that country. Aside from a mass of information and statistical material secured on this journey, I have been familiar with German economic problems over many years, including my experience before and after World War I. In view of the gravity of the crisis which confronts the world, it would be an ill service if I did not state my conclusions fully and frankly.

These conclusions are not the product of sentiment nor of feeling toward a nation which has brought such misery upon the whole earth. They are not given in condonement of the enormity of her crimes. They are the result of a desire to see the world look forward, get into production and establish a lasting peace. They are based upon the stern necessities of a world involved in the most dangerous economic crisis in all history.

At the present time the taxpayers of the United States and Britain are contributing nearly \$600,000,000 a year to prevent starvation of the Germans in the American and British zones alone. The drain is likely to be even greater after peace unless the policies now in action are changed. Therefore, entirely aside from any humanitarian and political aspects, policies which will restore productivity in Germany and exports with which

March 18, 1947

The President
The White House
Washington, D. C.

Dear Mr. President:

I am sending you herewith my conclusions upon the problems of reviving German industry and thus exports with which to relieve American and British taxpayers from their burden in preventing starvation in Germany. These problems also involve economic stability and peace in Europe.

Whatever may have been our policies in the past, I am convinced that the time has come to face the realities that have developed. The mission you assigned to me would be less than performed if I did not state the stark situation and make such recommendations as seem to me necessary.

I wish again to express my appreciation to you for your consideration, to my colleagues Mr. Hugh Gibson, Dr. Gustav Stolper, Dr. Dennis A. FitzGerald, Dr. William Sebrell, Jr., and Messrs. Louis Lochner, Frank Mason and Tracy Voorhees, and to our military and civil officials in Germany.

Yours faithfully,

HERBERT HOOVER

to buy their food and relieve this drain upon us are of primary importance.

But our economic interest is far wider than this. We desperately need recovery in all of Europe. We need it not only for economic reasons but as the first necessity to peace. The United States, through loans, lend-lease, surplus supplies, and relief, in the last two years, has spent, or pledged itself to spend, over fifteen billions of dollars in support of civilians in foreign countries. Even we do not have the resources for, nor can our taxpayers bear, a continuation of burdens at such a rate.

There is only one path to recovery in Europe. That is production. The whole economy of Europe is inter-linked with German economy through the exchange of raw materials and manufactured goods. The productivity of Europe cannot be restored without the restoration of Germany as a contributor to that productivity.

SOME ASSUMPTIONS

In order to offer constructive conclusions as to economic policies which will relieve the American taxpayer and will promote economic recovery in Europe, I make six assumptions, which I believe will be accepted by sensible people. They necessarily include certain political aspects which underlie all these economic problems.

First. I assume that we wish to establish a unified federal state in Germany, embracing mainly the present American, British, Russian and French military occupa-

tion zones, with economic unity and free trade between the states. I shall refer to this area as the "New Germany".

Second. I assume that our objective must be to clear German life of the Nazi conspirators and to punish those who have contributed to this conspiracy, which murdered millions of people in cold blood and brought this appalling disaster upon the world.

Third. I assume that we will not make the major mistake of Versailles, but will complete absolute disarmament of the Germans so that they shall not be able again to engage in aggressions; that this disarmament will embrace destruction of all military arms, fortifications and direct arms factories, with certain control of industry; that the Germans will have *no* army, *no* navy, and *no* air forces, retaining only a constabulary in which no Nazi or previous army officer may be employed; that this disarmament must be continued for a generation or two, until Germany has lost the "know-how" of war and the descent of militarism through birth.

Fourth. I assume that these requirements must be safeguarded by international guarantees and effective police service by the nations.

Fifth. I assume, in our own interest and that of Europe, that we wish to restore the productivity of the continent, that we wish to revive personal freedom, honest elections and generally to reconstruct the German people into a peace-loving nation cooperating in the recovery of Western civilization.

Sixth. I assume that the United States will not join in such guarantees and policing unless the treaty with Germany is so concluded that it contributes to the restoration of productivity and lasting peace in Europe and promptly relieves us of drains upon our taxpayers.

THE GERMAN ECONOMIC PROBLEMS

The German economic problems have two aspects:

First, the long-view, broad economic policies toward the New Germany which alone can produce the reconstruction of Europe and peace.

Second, our immediate problems in the joint Anglo-American military zones during the interregnum pending peace.

I therefore divide this discussion into these two parts.

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THE LONG VIEW ECONOMIC PROBLEM

The long view economic problems involved in the peace with the New Germany and its aftermaths are greatly affected by war destruction, the boundary settlements for the New Germany, the plant removals for reparations, and the policies with respect to "war potential" of industry.

These effects may be summarized:

1. There was considerable destruction of non-war industry from the air and otherwise during the war. The loss to peaceful productivity has not been determined, but it is considerable.

2. The proposed annexations to Poland and Russia, and the possible annexation of the Saar Basin by France, will take from Germany, as compared to 1936,* about 25% of her food supply, about 30% of her bituminous coal and about 20% of her manufacturing capacity.

3. The population of Germany in 1936 was about 68,000,000. The population of the New Germany by 1949 will be about 71,000,000, due to the expulsion of Germans from the Polish and Russian annexations, from Czechoslovakia, Hungary, Austria, Yugoslavia, Roumania and the return of prisoners into this area.

4. The Allied economic policies toward Germany are

*I have adopted 1936 as a basis for economic comparisons because it was a full year before German industry was distorted by her annexations and her most intensive armament activity.

of two categories: the first involves world safety, and the second, reparations for wrong done:

a. There has necessarily been, or will be, a demolition of all arms plants as part of disarmament. This destruction, however, has included some plants which might have been converted to peaceable production.

b. Reparations have been provided by assignment for removal to the different allies of certain percentages of "usable and complete industrial equipment." What proportion of Germany's peaceable productive plant has been, or is, in the course of removal in the French and Russian zones is not known. Certainly they have been very large from the Russian zone. The total for all Germany amounts to an important segment of its peaceful productivity. These removals include a large amount of "light industry" (producing mostly consumers' goods) as well as "heavy industry" (producing mostly capital goods). The removal of plants from the American and British zones has been halted because of the refusal of Russia and France to cooperate in inter-zonal economic unity as provided for at Potsdam.

5. In addition to the above courses of action, there have been general policies of destruction or limitation of possible peaceful productivity under the headings of "pastoral state" and "war potential." The original of these policies apparently expressed on September 15, 1944, at Quebec, aimed at:

"converting Germany into a country principally agricultural and pastoral,"

and included,

"the industries of the Ruhr and the Saar would therefore be put out of action, closed down. . . ."

This idea of a "pastoral state" partially survived in JCS Order 1067 of April, 1945 for the American zone. It was not accepted by the British. The "pastoral state" concept was not entirely absent in the Potsdam Declaration. It was partially ameliorated or its name changed for another concept, the "level of industry," developed by the agreement of March 26, 1946, and signed by Russia, Britain, France and the United States. This agreement was a compromise between the drastic terms proposed by Russia and France and the more liberal terms proposed by the other two nations.

One major theme of this "level of industry" concept is to destroy Germany's "war potential." Under this concept certain industries are to be blown up or prohibited, others are to be limited as to production. The emphasis was placed upon the limitation of "heavy industry" with the view that Germany could export enough goods from "light industry" to buy her food and necessary raw materials.

The absolute destruction or prohibition includes ocean-going ships, shipbuilding, aircraft, ball bearings, aluminum, magnesium, beryllium, vanadium and radio-transmitting equipment, together with synthetic oil, ammonia and rubber. Some of these provisions may be essential to disarmament. Such exceptions are not included in the discussion which follows.

Beyond these prohibitions, however, the "level of industry" concept provides elaborate restrictions, mostly on heavy industry. The following items are illustrative:

Iron and steel production to be reduced from 19 million tons (as in 1936) to a capacity of 7.5 million tons, with a maximum production of 5.8 million tons and only the "older plants" to be used.

Heavy machinery production to be 31% of 1938

Light machinery production to be 50% of 1938

Machine tools to be 38% of 1938

Electrical machinery to be from 30% to 50% of 1938

Agricultural implements to be 70% of 1936

Automobiles to be 10% of 1936

Trucks to be 67% of 1936

Basic chemicals, including nitrogen, calcium carbide, sulphuric acid, chlorine and alkali to be 40% of 1936

Cement to be 65% of 1936

Electric power produced to be 60% of 1936

No new locomotives until 1949.

Some "light industries" were also to be limited:

Textiles to be 77% of 1936

Paper to be 65% of 1936

Boots and shoes to be 70% of 1936

Precision instruments and optics to be . . . 70% of 1936

Miscellaneous chemicals to be 70% of 1936

Pharmaceuticals to be 80% of 1936

Dyestuffs (export) to be 58% of 1936

THE CONSEQUENCES TO FOOD SUPPLY

We may first examine what has happened, and what will happen, to the German food supply under all the circumstances of annexation and industrial controls.

Germany in 1936 was, by most intensive cultivation, able to produce about 85% of her food supply. This 85% has now been reduced by 25% through the Russian and Polish annexations, or is down to about 64% because even a larger population is to be concentrated in the New Germany.

Her production, however, was greatly dependent upon intensive use of fertilizers. The New Germany will require at least 500,000 metric tons of nitrogen and 650,000 tons of phosphoric anhydride, she having sufficient potash.

Under the level of industry agreement, the domestic production of nitrogen eventually would be reduced to under 200,000 tons; the production of phosphoric anhydride, would be reduced to about 200,000 tons. A larger production of nitrogen is allowed pending an opportunity to import. Part of this reduction is due to the "level of industry" steel reduction from which some nitrogen and a large percentage of phosphoric anhydride requirements were obtained as by-products.

From these figures it is obvious that a great discrepancy exists between minimum agricultural needs and the possible fertilizer production under the "level of industry" plan. If we persist in these policies, unless there are large imports of fertilizer, Germany's food production is likely to drop under 60% of her requirements even with an austere diet.

New Germany, if there is to be a will to work, to maintain order and to aspire to peace, must have an average food supply of at least 2600 calories per person per day, with adequate fats and protein content. (The British

average being 2800-2900 calories at present and pre-war Germany about 3000 calories.)

Taking the above limitations into consideration and based upon actual experience in the American and British zones, and extending that experience with adaptations to the Russian and French zones, the indications are that New Germany would need, at present prices, to import over \$1,250,000,000 annually in food and animal feed alone.

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Another illustration is the proposed limits on steel. Large and efficient steel and iron plants, undamaged or only partly damaged, are standing idle in Germany. Formerly the Germans imported millions of tons of iron ore from France and Sweden. These mines, under the "level of industry," must remain idle until a new steel industry is built elsewhere. That will require years and an amount of capital that is not in sight. In the meantime, Europe needs steel for reconstruction as she never did before.

To indicate the anxiety of surrounding states a memorandum of the Netherlands Government of January 1947, in presenting the absolute necessity to the

surrounding nations that a productive economic state be created in Germany, said: "The provisions of the plan for reparations and the level of German economy of March 1946 require to be revised . . . it is inadvisable to lay down maximum quota for production of German industries including the iron and steel industries."

The sum of all of this is: Germany, under the "level of industry" concept, unless she is to be allowed to starve, will be a drain on the taxpayers of other nations for years and years to come. In the meantime, if her light industries were built to become self-supporting, she would become an economic menace to Europe; if her heavy industries are allowed to function, she has an ability to export and would become an asset in Europe's recovery. To persist in the present policies will create, sooner or later, a cesspool of unemployment or pauper labor in the center of Europe which is bound to infect her neighbors.

We can keep Germany in these economic chains but it will also keep Europe in rags.

A NEW ECONOMIC POLICY

Therefore, I suggest that we adopt at once a new economic concept in peace with New Germany.

(1) We should free German industry, subject to a control commission, which will see that she does no evil in industry, just as we see that she does not move into militarism through armies and navies.

The difference between this concept and the "level of industry" concept is the saving of several hundred

millions of dollars a year to the American and British taxpayers. It is the difference between the regeneration and a further degeneration of Europe.

(2) The removal and destruction of plants (except direct arms plants) should stop.

(3) A further obstacle to building Germany as an essential unit of European economy arises from the Russian Government's acquiring a large part of the key operating industries in their zone. Germany in peace must be free from ownership of industry by a foreign government. Such ownership can thwart every action of control or of up-building by joint action of other nations. German industry must be operated by Germans if any international control is to work, if she is to recover production and is to serve all nations equally.

(4) There can be no separation or different regime of the Ruhr or Rhineland from the New Germany. That is the heart of her industrial economy. Any control commission can dictate the destination of coal or other exports from that area and even such control would not be needed after the era of scarcity passes from Europe.

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THE INTERREGNUM BEFORE PEACE

How long it may be before there is such a constructive peace with Germany, no one can tell. It may be long delayed. In the meantime, we are faced with the feeding of the people in the Anglo-American zones on a level just above starvation until we can develop enough export goods from these zones so that the Germans may pay for their food. I have said, American and British taxpayers are called upon for about \$600,000,000 a year for relief.

We have an admirable staff in Military Government of Germany under Generals Clay and Draper but their administration is constantly frustrated in building up the needed exports to pay for food and minimum raw material imports. A large part of these delays is due to the following:

a. The Russians and the French have failed to carry out the provisions of the Potsdam agreement for economic unity in the four zones. The Russian zone ordinarily produces a surplus of food but that surplus is used elsewhere, thus increasing the burden of imports on the Anglo-American zones. Both the Russian and French zones are producing industrial commodities which would relieve necessities in the Anglo-American zones and could contribute to exports with which to pay for food. The net effect is that the United States and Britain through relief are paying Russian and French reparations.

b. The inability to determine what specific plants are to be the victims of "level of industry," or destruction or the removal for reparations, produces stagnation because the Germans do not know where to begin work.

c. There is lack of working capital with which to import raw materials for such industries as are allowed to function.

d. An inflated currency and no adequate banking system hampers all forward movement in such industry as is left.

e. While de-Nazification and de-cartelization are necessary and important certain phases of them limit recovery. They are so involved as not to warrant description here.

CONCLUSION AS TO THE BI-ZONAL ADMINISTRATION

If, however, we cannot get a quick and sound peace on the lines I have recounted, the Anglo-American zones should abandon the destruction of plants, the transfer of plants for reparations and the "level of industry" concept, and start every plant, "heavy" as well as "light," which can produce non-arms goods. This will relieve far more rapidly great costs to our taxpayers; it will do infinitely more for Europe than American loans and charity.

Indeed the Congressional Committee on Postwar Economic Policy urged, on December 30, 1946, that the "levels of industry" be ignored wherever they conflict with exports so that there may be earlier recovery and payment for food.

The violation by Russia and France of the agreement for economic unification of the four zones of military occupation and the additional burdens this imposed upon us in consequence certainly warrant our ignoring all agreements for "level of industry," transfer and destruction of non-arms plants.

If this interregnum is to endure for long, we could build a self-sustaining economic community out of the Anglo-American zones alone. This could be only a temporary expedient, not a final solution. Building a lasting peace in Europe should be our objective.

GA - Mr. C. P. Kindleberger

I have reflected on our discussion of Monday concerning the role of the element of power in our European diplomacy. I take it to be your position that our present program of piecemeal negotiation is likely to produce, over a period of time, a European settlement more satisfactory than any that might result from an immediate effort to set forth and agree broad terms for a united Europe, combined with proposed settlement, within those terms, of the major outstanding issues.

In the light of your judgment I have reviewed the major issues that fall within the knowledge of GA. They include, I believe, a substantial proportion of our outstanding major European problems, and appear to reflect faithfully the nature of the forces now at work in Europe.

In the light of that review I would submit to you again the following observations:

1. Both USSR and UK, as well as France, are now proceeding on the assumption that Europe will, in fact, split, and they assume this in large part because they feel the US interest in the European structure is transitory.

2. This assumption tends to maximize the power element in every European issue, no matter how inconsequential.

3. In terms of this assumption the US struggle to achieve some degree of independence for Austria, by opposing USSR infiltration, its program of protest and obstruction, where possible in Eastern Europe, can only appear to USSR as part of a long-run effort to corrupt the East European bloc. It is significant that a Russian is recently reported to have remarked that our protest against USSR economic policy in Eastern Europe is judged in Moscow as an effort to preserve markets and economic influence for Germany. Although US policy in fact may be motivated by a conception of independence within the UNO, as a substitute for the older tradition of East Europe as a satellite area to a major power nothing in the present organization of the UNO offers the guarantee that exclusive blocs will not form in Europe, and very little of US diplomatic action in Europe could be interpreted as offering a realistic alternative to blocs. It is significant that USSR interpreted our delay in decision over the Rhineland-Ruhr as tacit connivance in a Western bloc conception; and that the UK regards the compromises we forced on them, to achieve agreement on the level of industry as a romantic concession to the Eastern bloc.

4. In fact, to the extent that US policy can be distinguished from UK policy in Europe, that distinction arises from the One Europe assumption that characterized Yalta and parts of the Potsdam Agreement. It seems clear to us, in the light of the character of day-to-day diplomacy that we must either re-assert our faith in a European solution, other than relatively exclusive blocs; or we must, increasingly, find ourselves, de facto, in support of the British bloc conception.

5. We recognize, of course, that the type of diplomatic offensive we advocate would be subjected to the most intense and suspicious scrutiny, not only by the UK but also by France, and the USSR. Its terms would have to be drafted in such a way that, initially, they would involve no relative surrender, by East or West; but rather equal surrender to the larger forum. Over a period of time, it would be the hope that the power or security element, within such a forum, would diminish, by a succession of equal withdrawals. To the West the guarantee of US participation, and to the East the assertion of US interest might well make this solution acceptable. We appreciate that the tactics of diplomacy required, including prior consultation at a high level with USSR and UK, would be fairly delicate.

6. In short, we doubt that the present array of negotiations in Europe - against a background of assumed split, with no operating tie-up to the UNO machinery, and with the long-run US interest heavily discounted - is likely to prove fruitful of results consistent with large US interests.

The President's Economic Mission to Germany and Austria

**REPORT No. 1— GERMAN AGRICULTURE
AND FOOD REQUIREMENTS**

HERBERT HOOVER

**NOTE—For release to editions of
all newspapers of Friday, Feb-
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REPORT ON AGRICULTURAL AND FOOD REQUIREMENTS

INTRODUCTION

AT THE TIME OF HER SURRENDER, Germany had exhausted all of her reserves and most of her stocks of consumer goods and raw materials. We now know that, driven back into her own borders, she would have blown up in chaos within a short time without further military action.

Promptly after the surrender, her liquid resources from which she could have been provided with supplies were seized and divided as reparations. The population thus became largely dependent for its life upon the armies of occupation.

It is hardly necessary to repeat that parts of Germany were annexed to Poland and Russia and that the shrunken territory was divided into four military occupation zones between the Russians, French, British and Americans. The American and British Zones have now been administratively combined, each nation bearing one-half the expense, and this report relates to that area only.

CHANGES IN POPULATION AND MANPOWER

The changes which have taken place in population profoundly affect all economic problems. The population of the combined zones in 1939 was about 34,200,000. The Germans expelled from the Russian and

Polish annexations together with those from Czechoslovakia, Hungary, and Austria, have raised the population in the American and British Zones to about 41,700,000. It is estimated that an additional 1,000,000 will come into this area by December 1947. There are also about 400,000 British and American military and civil personnel. Thus, the two zones will have to accommodate about 43,000,000 people, bringing the population approximately 9,000,000 above that in 1939.

The skilled manpower and the ratio of working males in the population have been greatly affected by the war. For the whole of Germany, it is estimated that 5,700,000 were killed or permanently injured. It is also estimated that over 3,000,000 prisoners of war are held in work camps in Russia; 750,000 in France; 400,000 in Britain, and 10,000 in Belgium. The detention of large numbers of skilled Sudeten German workmen in Czechoslovakia bears on this problem.

As applied to the American and British Zones, this represents a present subtraction of over 6,000,000 of the most vital and most skilled workers in the population. Likewise, the 90,000 Nazis held in concentration camps and the 1,900,000 others under sanctions by which they can only engage in manual labor naturally comprise a considerable part of the former technical and administrative skill of the country, and the restrictions upon them, however necessary, add to administrative and industrial problems.

One consequence of these distortions is that in the age groups between 20 and 40 there are 6 men to 10 women, and in the age group between 40 and 60, about

7 men to 10 women. Thus, there are in these groups between 6 and 7 million more women than men. The results upon productive power are bad enough, but the consequences to morals are appalling.

HOUSING

The housing situation in the two zones is the worst that modern civilization has ever seen. About 25 per cent of the urban housing was destroyed by the war. Therefore, 25 per cent of the urban population must find roofs from among the remaining 75 per cent, in addition to all the destitute "expellees" and other groups brought in. There has been little repair of damaged houses, due to lack of materials and transportation. The result of all this is that multitudes are living in rubble and basements. The average space among tens of millions is equivalent to between three and four people to a 12' x 12' room. Nor is the overcrowding confined to urban areas, for the "expellees" have been settled into every farm house. One consequence is the rapid spread of tuberculosis and other potentially communicable diseases.

COAL

The shortage of coal is, next to food, the most serious immediate bottleneck to both living and the revival of exports to pay for food. The Ruhr, which is now almost the sole coal supply of the Anglo-American Zones, is, due to lack of skilled men and physical vitality in labor, producing only 230,000 tons per day, as against

a former 450,000 tons per day. Of the present production, a considerable amount must be exported to surrounding nations which are also suffering. The shortage leaves the two zones without sufficient coal for transport, household and other dominant services, with little upon which to start exports in the industry.

The coal famine all over Western Europe and the unprecedented severity of the winter have produced everywhere the most acute suffering. As an example in Germany, no household coal has been issued in Hamburg since October. Other German cities have been but little better off.

AGRICULTURAL PRODUCTION

It must be borne in mind that about 25 per cent of the German pre-war food production came from the areas taken over by Russia and Poland. Moreover, the Russian Military Zone in Germany was a large part of the bread basket of Germany. Some millions of tons formerly flowed into the American and British Zones from these areas. These sources now contribute nothing.

The British and American armies and civilians are entirely fed from home. The large Russian army is fed upon their zone.

Due to a lack of fertilizers, good seed, farm implements and skilled labor, the 1946 agricultural production in the American and British Zones was about 65 per cent of pre-war. A generalized appraisal indicates that in the American Zone the harvest of 1946 yielded a supply, beyond the needs of the farmers (self-suppliers)

equal to about 1,100 calories per day for the "non-self suppliers". The similar supply in the British Zone was about 900 calories per day average to the "non-self suppliers". These amounts contrast with 3,000 calories of the pre-war normal German consumption.

With the efforts being made to improve agricultural production, there is an expected small increase from the harvest of 1947, especially in potatoes (if better seed is provided in time). The steps which I recommend, however, should show greater production from the 1948 harvest.

FOOD DISTRIBUTION

This terrible winter, with frozen canals and impeded railway traffic, has rendered it impossible to maintain even the present low basis of rationing in many localities. The coal shortage and the consequent lack of heat, even for cooking, has added a multitude of hardships. The conclusions in this report as to the food situation are, however, not based upon the effect of this temporary dislocation, but upon the basic conditions, to which the winter has added many difficulties.

From the food point of view, the population of the combined zones has been divided as below, based upon the German census undertaken last autumn. The table must not be regarded as precise for the different groups, as the Berlin Sector was not distributed on the same basis as others. It is, however, accurate enough for food computation purposes.

"Self-Suppliers", i.e. farmers and their families	7,640,000
"Non-self suppliers", i.e. urban population:	
Prospective and nursing mothers	660,000
Children 0-6 years of age..	3,070,000
Children 6-15 years of age..	4,495,000
Adolescents, 15-20 years of age	2,100,000
"Normal Consumers", 20 years up	17,910,000
Moderate hard workers....	2,500,000
Heavy workers	1,910,000
Extra heavy workers.....	720,000
Displaced persons	680,000
	34,045,000
<hr/>	
Total population, two zones.....	41,685,000
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The base ration is 1,550 calories per person per day to the "normal consumer" group, with priorities and supplements, as the situation requires or permits; for other groups. For instance, milk and fats are given in priority to nursing mothers and children up to six years of age; more food, including more meat, is given in supplement to hard workers, etc.

This basic ration for the "normal consumer" compares with the minimum temporary maintenance food

intake recommended for "normal consumers" by eminent nutritionists, as follows:

	Present German	Recommended Minimum	Percent Deficiency
Carbohydrates	283 grams	335 grams	16%
Fats	24 grams	45 grams	47%
Protein	52 grams	65 grams	20%
Calories	1,550	2,000	24%

Thus with the deficiency in quantity and in fats, protein and other nutrients, the 1,550 ration is wholly incapable of supporting health of the groups, which do not have supplements.

NUTRITIONAL CONDITION OF THE POPULATION

The nutritional condition of the above different groups, irrespective of the immediate consequences of the hard winter, are:

(A) The 7,640,000 self-suppliers are, naturally, in good condition.

(B) The supplements and priorities in special foods given to 3,730,000 prospective and nursing mothers, and children under six years of age, appear to be enough to keep them in good condition.

(C) Over half of the 6,595,000 children and adolescents, especially in the lower-income groups, are in a deplorable condition. Their situation is better in limited localities where school feeding has been undertaken but outside these limits stunted growth and delayed development is widespread. In some areas famine edema

(actual starvation) is appearing in the children. A study of groups of boys between the ages 9 and 16 years showed 5.5 lbs. under minimum standard weights, with girls 5.1 lbs. below such standard. Other groups studied showed even worse conditions.

(D) A considerable part of the "normal consumer" group of 17,910,000 is likewise in deplorable condition.

This group comprises the light physical workers and is in large majority women and many are aged. Some portion of this group are able to supplement the 1,550 caloric ration by purchase of some supplies from the black market, from the free markets in the vegetable seasons, and from package remittances. Some part of this group are too poor to purchase even the 1,550 caloric ration.

In any event, a large part of the group shows a steady loss of weight, vitality and ability to work. A study in the British Zone shows urban adult males over 19 pounds and females nearly 5 pounds under proper weight. A study in the American Zone showed from 5 to 20 pounds under proper weight. Famine edema is showing in thousands of cases, stated to be 10,000 in Hamburg alone. The increased death roll among the aged is appalling. In persons over 70, in three months last autumn the increase was 40 per cent.

(E) While the workers' rations, due to supplements, are perhaps high enough in themselves, yet the universal tendency is for the worker to share his supplement with

his wife and children, and therefore it does not have its full effect in supplying energy for the worker himself.

(F) The 680,000 Displaced Persons are about one-third in the British Zone and two-thirds in the United States Zone. In the British Zone they receive the German ration only. In the United States Zone they receive supplements which amount to 700 calories per day, so there can be no doubt as to their adequate supply in that area. In fact, the American ration is above the "normal ration" of the other nations on the Continent, except the former neutrals.

These nutritional conclusions are based upon surveys made by Dr. Wm. H. Sebrell, Jr., of the United States Public Health Service, who was a member of my Mission. At my request, he also visited Italy, France, Belgium, Holland and Britain, to study the comparative nutritional situations of these countries with that of Germany. He reports that the nutritional condition in those countries is nearly pre-war normal, while the special German groups that I have mentioned are not only far below the other nations but disastrously so.

A NEW PROGRAM

The Anglo-American bi-zonal agreement of last autumn calls for an increase of rations by 250 calories per day at some undetermined date. Such an increase is highly desirable. However, the world shortage in cereals, evidenced by the early reduction of bread rations in several other nations, renders such an increase impossible until after the harvest of 1947. Such a program

also implies increased import supplies which, in terms of grain, would add 1,260,000 tons and \$136,000,000 annually to costs, above the already huge burden upon the taxpayers of our two nations.

As the present base of 1,550 calories for "normal consumers" is not enough to maintain health in many children or health and working energy in many adults, I propose a different program. This new approach is to repair the weakest spots in the nutritional situation. I believe that this method will accomplish the major purpose of the proposed general increase in ration as nearly as can be accomplished within the limits of available supplies and finances for the remainder of the fiscal year 1946-1947.

In many ways, I believe it is a better program, and if this method proves a successful remedy during the next few months, it may modify the necessity of so large an increase in imports in the fiscal year 1947-1948 as has been proposed under the bi-zonal agreement.

There are two groups to which this repair of weakness should be given quickly:

First are the children over six years of age and the adolescents. The number of this group who are under-nourished is estimated to be about 3,500,000 or more than 50 per cent. To cover this group and assure that the food reaches the child, the British in their zone, aided by the Swedish and other charities, are giving a small ration in certain schools. There is no systematic school feeding in the American Zone. A system of soup kitchens to provide a hot meal of appropriate body-building foods (meat, fats, milk, etc.) of at least 350

calories daily is imperative for the children in the worst areas of the combined zones, if a future Germany of wholesome character is to be created.

In order to start this system at once, I recommend using the Army surplus 10-in-1 rations, now enroute, and certain excess stocks not adapted to Army feeding and now in control of the American Occupation Forces. These resources can form the major base of this system for a considerable period. This is the more possible as it is proposed to slaughter during 1947 over 5,000,000 head of cattle, hogs and sheep in order to lessen the animal consumption of ground crops, and a portion of these meats and fats can be applied to this program. These various supplies, together with some minor cereal allotments, should carry the program for six months.

The second group demanding immediate relief is the "normal consumer" group of about 17,910,000 persons, now receiving 1,550 calories per day. I strongly recommend several lines of action. (a) A certain portion of them should be advanced to the group of moderate heavy workers and receive the supplement applicable to that category. (b) An emergency supply of cereals should be allotted to the German welfare organizations with which to provide a supplement to families in need and the soup kitchens. (c) I recommend that the aged in the "normal consumers" group and others where medically certified, be issued tickets upon the soup kitchens for the meal of 350 calories per day during the school week, to be consumed either at these kitchens or taken home. These supplemental measures will substantially improve, and will at least carry over, the most

needy part of this group.

By aid to the children and adolescents, some pressure will be removed from the "normal consumer" group, who naturally tend to cut their own food to help their children.

In support of the above program for children and "normal rations", I have included in the recommended deficiency appropriation an emergency supply of 65,000 tons of cereals. These measures as I have said, are in substitution for the great increase otherwise necessary to import for the proposed program of a lift in the whole ration system by 250 calories.

In addition to these measures, I have included in the sums given below which I recommend to be appropriated for the balance of this fiscal year 1946-1947 an amount necessary for the shipment of 400,000 tons of surplus potatoes from the United States. The object is two-fold.

Due to spoilage during this unprecedented winter, and other causes, there are not enough potatoes by 250,000 tons to cover that portion of the minimum 1,550 caloric ration until the next harvest. Certainly we cannot allow the ration to fall below its already dangerous levels.

Of even more importance, most of the potato seed of our zones normally comes from the Polish-annexed area and the Russian Zone and is not available. If we can forward 200,000 to 250,000 tons of good potato seed, with some already in hand, we should be able to assure a yield from the 1947 harvest of 5,000,000 tons, and thereby effect some savings in overseas food imports for the fiscal year 1947-1948.

NECESSARY IMPORTS AND FINANCE

The supply and finance of food and collateral relief imports and the development of exports with which ultimately to pay for these imports, has been organized upon the basis of dividing foreign trade into two categories:

Category "A" covers imports of food, fertilizers, and petroleum products for the civil population. This Category is to be paid for by appropriations, and thus one-half by the taxpayers each of the United States and the United Kingdom. It has not been determined whether seeds fall in this group. In my opinion they should be, and I have included them in my estimates of supply and cost which appear below.

Category "B" is under the "Joint Export-Import Agency", who regulate the importation of raw materials and the export of coal, some other raw materials and manufactured products. The organization started with a certain working capital and all exports of coal and other commodities are credited to this fund until the exports exceed the raw material imports, when the surplus will be applied to the cost of Category "A". It is hoped that the export surplus will begin to contribute to Category "A" in the last half of 1948 and cover virtually all the cost in the calendar year 1950.

Therefore, the cost of Category "A" for the balance of the 1947 fiscal year, in which a deficiency appropriation is involved, and the whole of the 1948 fiscal year, will fall upon the taxpayers of America and Britain.

COST AND SUPPLIES OF CATEGORY "A" IMPORTS FOR THE LAST HALF OF FISCAL YEAR 1946-47

The program of supplies and costs to cover Category "A" for the six months from January 1st to July 1st, 1947 will appear large compared to the program given later for the whole fiscal year 1947-1948. The reasons are that imports were unduly low during the last six months of 1946 and the drain on indigenous food unduly large. Also, it is necessary to include the cost of purchases and shipments prior to July 1st so as to provide in June for arrivals in Germany during the period July 1st to August 15th, for which appropriations for the 1947-48 fiscal year cannot be available until after July 1st. This works to lessen the burden on the fiscal year following that date. I have, as said, included the allotment of 65,000 tons of cereals to support the "normal ration" group, and the potato imports.

The following is the estimated cost for both zones; for the six months January 1st to July 1st, 1947, in which are included the supplies already shipped for this period:

Cereals (wheat equivalent) 2,505,000	
tons	\$288,000,000
Other foods, 720,000 tons	54,000,000
Fertilizers	17,500,000
Seeds	12,500,000
Petroleum products (civil population) . .	12,000,000
Total	<u>\$384,000,000</u>

The United States contribution of one-half of this is \$192,000,000.

What portion of these expenditures are already covered by appropriations, and what portion must need be covered by deficiency appropriations, is not known to me.

SUPPLIES AND COSTS FOR FISCAL YEAR 1947-1948

In considering the supplies and cost of Category "A" for the fiscal year 1947-1948, the supplemental supports I have proposed to strengthen the children, adolescents and "normal ration" group, should undoubtedly carry through these groups until October, especially with the Spring and Summer produce. Therefore, it will not, in any event, be necessary to increase the general ration by the 250 calories provided in the bi-zonal agreement until that date. It is my hope that the revised methods by which the weak places in the system are strengthened may partially or wholly avoid this necessity after that date. I have, however, provided in the estimates an item of \$62,300,000 for such an increase after October. I have also included in these estimates an enlarged fertilizer and seed program. It is my belief that these latter measures will greatly lighten the burden on our taxpayers in the fiscal year 1948-1949.

The following is my estimate of the supplies and costs needed for the fiscal year 1947-1948 covering Category "A":

Cereals (in terms of wheat) for 1,550 calorie level, 2,785,000 tons	\$278,500,000
Cereals for "normal consumers" emer- gency supplemental feeding, 192,- 000 tons	19,200,000
Child feeding program (includes spe- cial foods), 130,000 tons	35,000,000
Other foods, 450,000 tons	75,000,000
Fertilizers (available)	45,000,000
Seeds	27,000,000
Petroleum products for civil population.	25,000,000
	<u>\$504,706,000</u>
Cost of ration increase to 1,300 calories on or about October, 1947	62,300,000
Total	<u>\$567,000,000</u>

of which the United States share of 50 per cent amounts to \$283,500,000.

Due to these changes in method, the above program is different from that submitted by the War Department for the fiscal year 1947-48, but the total cost is no greater.

It is my conviction that these appropriations for Category "A" for both the 1946-1947 and the 1947-1948 fiscal years should have first consideration, even in priority to appropriations for military purposes. The occupational forces cannot be reduced without these assurances of minimum food supply. From the point of view only of maintaining order, the need for these forces is not great, if we can meet the food needs. Their size will depend upon other considerations.

FURTHER SAVINGS TO THE TAXPAYERS THAT CAN BE MADE

There are ways by which these costs could be reduced, although they are not certain enough to be deducted in advance against appropriations which must now be determined.

1. If these changes in rationing program render the general calorie lift unnecessary, there would be a saving of \$62,000,000.

2. If through the 1947 deficiency appropriation the seeds are provided in time, there should be substantial additions to the German potato harvest, in relief of 1947-1948 expenditures. If the fertilizer and seed recommendations for the fiscal year 1947-1948 are accepted, there should be savings by increased indigenous production in the year 1948-1949.

3. There would be savings if prices proved lower and if climatic conditions for the indigenous crops turned out exceptionally favorable.

4. The Potsdam Declaration results in Germany having no consequential overseas shipping. If we could effect some temporary operation by German crews of, say, seventy-five Liberty ships, now laid up, to transport food and raw materials, all of the expense could be paid by the Germans in marks, except for fuel, and thus save a very large amount of dollars otherwise coming from the American and British taxpayers. This would probably amount to \$40,000,000 per annum.

5. A further saving of possibly several million dollars could be made for the taxpayers if the large Amer-

ican Army return equipment, now being transported at high ocean rates, were sent home on the return voyages of these Liberty ships.

6. There are food surpluses in the control of other nations than ourselves and the British. They comprise possible increased catches of fish in Norway, Sweden and Denmark, which otherwise are little likely to find a market, and some surpluses possible from the South American States. It would seem to me that some supplies could well be furnished by these nations, being repaid as indicated below, *pari passu* with the British and ourselves.

7. The Germans lost a considerable part of their deep sea fishing fleet. If more such boats could be found and leased from American surplus small shipping, the fish supply could be greatly increased. The fishing grounds in the Baltic and North Seas are being limited against German fishing. As there are ample supplies of fish in these seas, it seems a pity that with this food available, British and American taxpayers are called upon to furnish food in substitution for fish the Germans could catch for themselves.

Fish is particularly needed, as the present diet is sadly lacking in protein content.

8. A still further saving to British and American taxpayers is possible if maximum expedition could be made of exports of German manufacture. The Joint Export-Import Agency is doing its best, but such exports are hampered by the lack of coal for manufacture; by Trading-with-the-Enemy Acts, and restrictions on free

communication together with limitations on dealings between buyers and sellers. The restoration of trade is inevitable, and every day's delay in removing these barriers is simply adding to the burden of our taxpayers for relief that could otherwise be paid for in goods. No one can say that in her utterly shattered state, Germany is a present economic menace to the world.

Should there be such good fortune as to realize all these possibilities, we could not only increase the food supply to health levels but also lessen the joint costs by \$150,000,000 during the fiscal year 1947-1948. However, as I have said, I am convinced that the larger sum should be provided for.

GERMAN REPAYMENT FOR THESE OUTLAYS

The great sums hitherto spent on relief of the German civilian population from outside Germany's borders, together with those in the future, should not be an irrecoverable expenditure to our two Governments.

I have, therefore, urged upon the American and British authorities that it be announced as a policy, and stipulated in all peace arrangements, that these expenditures for the relief of the civil population, (Category "A") past and future, should be made a first charge upon the economy of Germany and repaid from any future net exports from Germany before any payments to other nations of any kind.

At my instance, all Allied nations in the first World War agreed that German civilian relief expenditures at that time should be repaid from any liquid assets and

ranked ahead of any reparation claims. They were so repaid. The grounds which I advanced at that time are no less valid today. By these relief expenditures, we are rebuilding the economy of the German people so that other payments can be made by them. These costs should be a sort of "Receiver's Certificate". If this policy be pursued, these appropriations for relief asked from the Congress, and the Parliament, can become a recoverable expenditure and not a charity loaded onto our taxpayers. It would seem that a tax upon exports, of some per cent, to be paid in dollars after July 1, 1949 might be an effective implementation of such a provision.

ORGANIZATION

I have made certain recommendations to the joint Military Governments of the two zones as to organization matters, which I believe will improve administration, now that bi-zonal operation, under larger German responsibility, has been undertaken.

CONCLUSION

It may come as a great shock to American taxpayers that, having won the war over Germany, we are now faced for some years with large expenditures for relief for these people. Indeed, it is something new in human history for the conqueror to undertake.

Whatever the policies might have been that would have avoided this expense, we now are faced with it. And we are faced with it until the export industries of

Germany can be sufficiently revived to pay for their food. The first necessity for such a revival is sufficient food upon which to maintain vitality to work.

Entirely aside from any humanitarian feelings for this mass of people, if we want peace; if we want to preserve the safety and health of our Army of Occupation; if we want to save the expense of even larger military forces to preserve order; if we want to reduce the size and expense of our Army of Occupation—I can see no other course but to meet the burdens I have here outlined.

Our determination is to establish such a regime in Germany as will prevent forever again the rise of militarism and aggression within these people. But those who believe in vengeance and the punishment of a great mass of Germans not concerned in the Nazi conspiracy can now have no misgivings for all of them—in food, warmth and shelter—have been sunk to the lowest level known in a hundred years of Western history.

If Western Civilization is to survive in Europe, it must also survive in Germany. And it must be built into a cooperative member of that civilization. That indeed is the hope of any lasting peace.

After all, our flag flies over these people. That flag means something besides military power.

ANNEX AGENERAL OUTLINE OF THE RECONSTRUCTION PROBLEMI-Changes in the European economic situation since before the war. (f)

1. In 1947 visible European trade with non-European countries showed a deficit at current prices of 6.9 billion dollars. Net invisibles resulted in an outflow of about 0.6 billion dollars but this amount arose mainly because of freight payments on relief shipments, and can therefore be treated as abnormal. Thus the figure of 6.9 billion dollars gives a rough indication of the deterioration of Europe's position since 1938 and of the gap to be bridged to reach viability at the standard of living and economic activity which the 1947 level of imports would allow.
2. At 1938 prices, this total European deficit would have been 3.3 billion dollars. Before the war, income from overseas investments was about 1.4 billion dollars and net income from shipping and other items about 0.7 billion, a total of 2.1 billion dollars. In 1947 income from investments was only 400 million dollars and on all other invisible items there was a deficit of 1 billion dollars. The loss of invisible earnings since 1938 was therefore 2.7 billion dollars. This loss is the first reason for the 1947 deficit.
3. Secondly, at 1938 prices imports in 1947 were about 0.4 billion dollars higher and exports about 0.8 billion dollars lower than the levels of pre-war trade.
4. Thirdly, there is the effect of price changes. For the countries as a whole; the general increase in prices automatically increased the size of the visible deficit measured in money terms. The effect of price increases accounted for the remaining 3.6 billion dollars.
5. To sum up, the deterioration compared with the pre-war pattern was as follows

	<u>Million dollars</u>
Loss of investment income from non-European areas	1,000
Loss of net income from shipping, etc.	1,700
Increased imports (1938 prices)	380
Reduced exports (1938 prices)	830
Effect of price increases on deficit	3,800
Total	<u>7,610</u>

A convenient approach to the problem of restoring viability is to consider the prospects of returning to the 1938 situation in respect of these items. To the extent that this seems unlikely, it will be necessary to consider what compensating changes can be made to offset the losses. The following paragraphs do this.

(f) Note: In paragraphs 1 to 14 of this paper the statistical information is derived from the report of the E.C.E. entitled "A survey of the Economic Situation and Prospects of Europe". Therefore throughout that section the words Europe and European have the geographical sense attached to them in that document.

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II-The prospects of returning to the pre-war situation

6. There is little to be said about the loss of income from investments; foreign investments will not be re-established within the time relevant to the present problem, though it is possible that the yield on the remaining investments will somewhat improve. On the other hand, the burden of interest and amortisation of debt will increase to an extent which it is still impossible to assess.
7. It has already been mentioned that the European balance of payments at present shows a net outlay for shipping and other services, and that this is partly explained by temporary and extraordinary circumstances. By sustained efforts it should be possible for Europe to re-establish a net income from shipping. It should also be possible to get increased income from tourist traffic. It seems unwise however, to assume that net income from shipping, tourism, etc. within the next four years will do more than offset the increasing outlay for interest and repayments of debt.
8. The increase of imports by some 400 million dollars (at 1938 prices) above pre-war levels is partly explained by relief and reconstruction needs of a temporary character. If financial stability is re-established, production increased to its pre-war volume and intra-European trade reorganised, it is probable that these "abnormal" imports will disappear. On this assumption we could examine European import needs on the basis of the pre-war pattern. European imports of a "normal" character (excluding German imports) are slightly below normal imports before the war but show important changes in their general structure: oil imports have increased while, for example, imports of all food stuffs (except bread grains and sugar) have decreased.
9. As regards cereals, the first step must be the re-establishment of pre-war levels of production and even, in some cases, an improvement on them; even when these are reached Europe's increasing population would require increased imports. Thus if food imports as a whole are not to be an added burden on the European economy, increased import of cereals will have to be offset by reduced imports of other agricultural products. Oil at present shows an increase of 175 million dollars and some part of this increase will have to be maintained if full use is to be made of industrial capacity now based on oil.
10. It follows that unless there is a major change in the structure of the European economy, resulting from an increase in the production of food stuffs and raw materials in the participating countries and their overseas territories, the volume of imports is likely to remain higher than before the war.
11. The decrease in the volume of exports to the Western Hemisphere is due to a number of factors in addition to the low level of European production. Increased American productivity has in some cases made access to the U.S. market more difficult. The inflationary developments in many European countries have led to increased demand by the home market for exportable goods. Moreover, even goods which are available for export are being attracted from possible dollar markets to markets in other countries suffering from inflation. Thus in some respects the problem of re-establishing exports is fundamentally the same as that of returning to the pre-war volume of imports: the solution to both can be found only by the restoration of European production, of sound financial conditions and of greater freedom of trade in Europe.
12. But even if these conditions were established, it can hardly be expected that European commodities of pre-war types can be sold to the U.S. to the same extent as before the war; new lines of production and exports will have to be found. There is of

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course the possibility of exporting to non-European markets other than the U.S. Such markets are likely to offer much greater outlets for a European export drive, but in many cases they will not have a surplus with the U.S.A.; and unless there is a considerable export of American capital to them they will not be able to pay in dollars for a considerable import surplus from Europe and thus help the European countries to settle their accounts with the U.S.A.

13. There remains the question of prices, which accounts for about half the current deficit. Although it may be considered certain that there will be some reduction in the prices Europe has to pay for its imports, it is not practicable to make any estimate of the magnitude of any such reduction. Moreover it is probable that there will also have to be some reduction in the prices of European exports. The changes are less likely to come through improvement in the terms of trade which indeed may well deteriorate, than through a general reduction of prices. So long as Europe is not balancing its current payments, an all round reduction in prices would considerably reduce the current deficit as measured in money.

III-Trade and Payments Patterns

14. Before turning to the question of what is required and what may be done in order to compensate the consequences of the changes from the pre-war pattern, the picture of the present situation should be completed by a few words concerning intra-European trade and payments. The pre-war pattern of intra-European trade had, as its salient features, the position of the United Kingdom and other non-Continental Europe with a trade deficit with the rest of Europe which in 1938 amounted to 355 million dollars; and the opposite position of Germany with a credit balance with the rest of Europe of 359 million dollars. The United Kingdom deficit was paid out of net incomes from non-European sources, thus indirectly providing the rest of Europe with a considerable part of its requirements for covering deficits with non-European countries. Owing to Germany's surplus position with Europe, a part of the exchange earned by other European countries from exports to the United Kingdom was used for the settlement of their deficits with Germany which in turn used that exchange to pay for its large volume of imports from outside Europe.

15. The pattern just described had broken down. There will clearly be fewer facilities for European countries to settle their debts with the dollar world through surpluses earned from other European countries, as sterling which was the principal medium for such transfers in pre-war days is no longer freely convertible into dollars. Moreover it is likely that the dollar surpluses from the exports of participating countries will not be sufficient to replace the former facilities provided by sterling. The re-establishment of intra-European trade therefore will call for very far reaching structural changes in the pattern of that trade and intra-European commercial payments will have to be brought closer to a mutual multilateral balance. On this point the intra-European structural trade problem is linked up with the changes of Europe's global balance of payments with the rest of the world mentioned in the previous paragraphs.

IV. Restatement of the problem

16. By the loss of overseas investments the European economy has been deprived of the financial backing of its trade with the rest of the world. This loss, which in pre-war terms has been estimated at rather more than 2 billion dollars, has been accompanied by other changes, acting in the same direction. It has produced an irrevocable deterioration in the economic situation of Europe as a whole, and will call for a readjustment of the European economy, to an extent perhaps not so far sufficiently appreciated. As

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the other unfavourable changes which have already been considered can only partly be eliminated, the loss of income from foreign investments must be considered a minimum measure of this irrevocable deterioration. For reasons already explained in paras 13 and 14 it is not sufficient to judge the consequences of this loss only from the point of view of the European economy as a whole; the invisible income from overseas investments moulded the pattern of intra-European payments and its disappearance, therefore, must lead to a complete reshaping of that pattern.

V. Measures necessary to compensate for the deterioration of the European position.

17. The many uncertainties which surround future market developments make it difficult to indicate in any detail the direction of the structural changes called for. Generally speaking it is obvious that the necessary compensating changes have to be based on a considerable increase of production in the participating countries and their overseas territories based on increased productivity and a more intensive use of the resources at their command. Only by an increase of production on a large enough scale will it be possible to reduce imports and increase exports - or both - while maintaining or improving European standards of living. The increased production which must be the basis of the re-shaping of the European economy should be directed primarily to the production of "dollar-earning" and "dollar-saving" commodities, but without frustrating efforts to increase domestic productivity in those less developed areas, where this is of very great long term importance. The maximum possible effect of the increased production will only be obtained if each individual country is willing to take into account the economic needs of the group as a whole when planning its production. Moreover the distribution of this production in trade must be so devised as to contribute to the restoration of the equilibrium of the group as a whole.

18. The increase in production will be of a different character in different participating countries. Some countries with a favourable competitive position should specialise in fields where increased production might open possibilities of greater exports mainly to the U. S. market etc. Other countries, with raw material resources and productive capacity, naturally limiting their field of action to European markets, should specialise on increased production of dollar saving commodities for the supply of these markets. The classical division of labour in Europe, based on relative costs etc... should thus be given full play when deciding on the direction in which the reconstruction activities should be guided, so that countries in a position to achieve an export surplus to non-European markets should try to establish such a surplus and should open their own market for products from countries which have to specialise on production for the European markets while maintaining a deficit in relation to non-European markets. In this way a maximum productivity of the European countries as a whole would be realised and the extra-European payments would be balanced globally but with important differences as between various countries, some countries having a more or less permanent dollar surplus, others a more or less permanent dollar deficit. Thus European Co-operation in the devising of the production programmes will find its expression in financial terms in a revised pattern of European payments.

19. The development outside the dollar area and outside the metropolitan territory of the participating countries, of new sources of supply of foodstuffs and raw materials and the increase in the productivity of existing sources is of very particular importance. To some extent, in the overseas territories, particularly those in Africa, the participating countries can make a direct contribution,

and action here is of great importance. But also in other parts of the world, such as Latin America, the British Commonwealth and Eastern Europe, there are possibilities of increasing production of raw materials and foodstuffs which at present cost dollars. Provided that the participants as a whole can at least balance their payments with these areas while at the same time buying from them increased quantities of these foodstuffs and raw materials, there is a clear contribution to the dollar problem. Further, if these areas can develop their exports of raw materials to the U.S.A. the payments to the participating countries could be made in dollars.

20. There are considerable surpluses of manpower today in several participating countries where they cannot be fully employed owing to lack of material resources and capital. Some redistribution of these existing surpluses will be necessary in order to make possible the structural changes which have been envisaged in the foregoing paragraphs.

21. Developments of this nature whether in Europe or elsewhere in the non-dollar world have a double effect. One main part of Europe's problem arises from the increased cost of raw materials as compared with manufactured goods. Only an increase in the supply of foodstuffs and raw materials can reduce the price of these products relatively to the price of manufactured goods. If that does occur not only will Europe be able to buy these goods from non-dollar sources, but the price of dollar foodstuffs and raw materials will be reduced.

22. European viability depends not only on European efforts. It cannot but be affected by the policies which will be pursued in the rest of the world particularly in the U.S.A. Moreover it will not be possible to increase the production of raw materials and foodstuffs in underdeveloped areas without considerable investment of capital and particularly of risk capital. To the extent that capital from the U.S.A. is available for this purpose the restoration of general equilibrium will be facilitated, since it would limit and perhaps eliminate the need to solve the dollar problem by imposing on European trade a straightjacket of modified bilateralism. This is a matter of serious import for the future of European economy. But we do not know whether such capital movements will take place or whether existing ones will be expanded, and it would be unwise to rely *a priori* on them for the solution of the European problem.

23. Further, unless internal equilibrium is re-established within the various participating countries, increased production, whether in Europe or elsewhere, will not enable the participating countries to balance their external accounts either with the rest of the world as a whole or with the dollar area. The internal price structure must be such as to encourage, not discourage, exports, in particular... exports to the dollar area; the internal monetary policy must be such as to encourage and make possible the necessary volume of saving in both the public and private sphere which can make possible the investment programmes. Finally in so far as productivity is the basis on which greater production is to be obtained, internal policy must be directed to encourage, not discourage, that increased productivity.

VI. Summary

24. The restoration of European viability will call for a major productive effort both in the metropolitan and the overseas territories to increase the production of dollar-earning and dollar-saving commodities. A very large degree of co-operation

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in all fields, including that of manpower, will be needed if this productive effort is to have the maximum effect. Structural changes both in the structure of production and of the pattern of intra-European trade will be necessary.

25. The development of additional sources of supply of raw materials and foodstuffs, whether in Europe, the overseas territories, or the rest of the non-dollar world, is particularly important. Such new sources of supply will not only enable the participants to save or earn dollars; but also, by redressing the present balance between the prices of raw materials and foodstuffs on the one hand and manufactured goods on the other, will reduce the burden of such purchases from the dollar area as cannot be eliminated.

26. Unless general policies are adopted which will re-establish internal equilibrium in the various participating countries, increased production will not enable them to balance their external accounts.

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FORTUNE

350 FIFTH AVENUE

NEW YORK 1

OFFICE OF RECENT AND CURRENT
ECONOMIC AFFAIRS
DEPARTMENT OF STATE

EDITORIAL DEPARTMENT

OCT 28 1946

October 25, 1946

Dear Charlie,

I am enclosing an article on Germany on which I have recently been laboring. This is for your criticism and I hope, as well as approval, that it will be vigorous. Let me know the result.

Sincerely,

J. A. Callahan

Mr. Charles Kindleberger
Division of German Austrian Economic Affairs
Department of State
Washington, D. C.

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personal

April 24, 1948

Dear Ken,

I like the article fine.

I have, however, two points: one trivial, one of substance.

Some learned Europeans - primarily I recall, Balogh and Rosenstein-Rodan, have referred to land reform in Southern Italy in connection with the (a ?) latifundia. This is an outfit either for or against land reform. If your article is to show a proper degree of scholarship, I suggest you get the word into it, and preferably in the correct sense.

A related point - not the second but part of the first - is that you do not seem to pay sufficient attention to the role of anticlericism in Italy. In our anxiety to win the election, we have played in very closely with the clerical influences. These are bitterly opposed to land reform, because their ox would get goosed in the process. Not only is land reform a deep-seated instinct in Italy, but so, among wide sections of peasantry and working classes, is anticlericism. When the United States identifies itself with the Church in a political struggle, it erects a real barrier between itself and the Italian masses. This barrier was unimportant last Sunday. It may be important in the future.

The second point relates to Germany. It seems to me that you might have made a stronger case for not applying "free enterprise" there if you took the trouble to demonstrate that free enterprise in Europe and its counterpart in the United States are different animals. The point cannot be made too sharply. But German free enterprise, in addition to being all the things you mention in terms of distribution of product, is essentially non-competitive and cartelistic. The whole anti-cartel episode of Military Government - an admitted failure not wholly repudiated - was an absurd attempt to graft our type of free enterprise (as viewed by the mythology) onto a different business structure - and to apply it to business men with different instincts, patterns of behaviour, etc. The socialists of Europe are reacting in part against the European type of business enterprise, rather than free enterprise in the abstract. We are sympathetic to that reaction (in our myths at least). But the die has been cast too long to permit getting back in Europe to where we stand. And the abject failure of Jim Martin's experiment proves it. It seems to me it is worth a paragraph of your attention.

It might be worthwhile in the same connection to point out the absurdity of our trying to impose our mythology of international trade on the whole world. The ITO nonsense doesn't stand in our way when we have a surplus like wheat, or an infant industry such as watch-making to protect. But we want to force it down the throats of others who are far worse conditioned intellectually to accept it.

I think the article could also use a paragraph or two of greater generality as to the necessity for the United States to build the "third force" all over the world. The Republican party, or if you prefer, the country as a whole, has not made a clean-cut decision on this issue. The House vote on the O'Konski amendment showed how close we are to embracing any degree of reaction of the right in our present fear of totalitarian leftism. The Taft reaction on China and Germany is another indication of the wide tendency in this country to support Fascists - which, as foreign policy, won't work for the reasons you set forth. A possible future test, which may be avoided if Schumann survives the next three months to the harvest without compromising his position, will be on the subject of the authoritarian mystic, de Gaulle. Thus far the State Department has an excellent record on de Gaulle. How about J.F. Dulles? How about the country as a whole. This is the real issue of our foreign policy as faced by Congress, the State Department, the Department of Defense, and the people - should we shun both left and right extremes, or only the former? Your piece is a very persuasive argument for the third force, but I am not sure that you put the issue as clearly and concretely as it must be put - in terms of Germany, Greece, Italy, France, China, the International Bank loan to Poland, and other issues.

One final word in this extended harangue. I am afraid your title will be misleading unless you state at an early stage that you do not propose to discuss military alliances, lend-lease arrangements, and other action of a military character. Implicit in your argument is that these with ERP are still not enough. It seems to me useful to make these explicit. And I think it would be wise to take a stand on them in passing.

Yrs etc,

Gelbhart
Furtue, 350 Fifth Avenue

IS I have passed your article along to Dave with a copy of this screed.

October 30, 1946

Dear Ken,

I read the manuscript of your epic on Germany. You are on the whole very tender with the sensibilities of your former employer for which we are most grateful. George Jacobs and I have made certain hen track notations in the margins. In addition to the foregoing, however, I have certain broad comments mostly by way of mention of items which you saw fit to omit and which in my judgment form an integral part of the story.

You say nothing, for example, about the Soviet coporations in eastern Germany, their possible role in Russian penetration of the German economy, the difficulties we are encountering in Austria with "German assets" in lower Austria, or the Russian technique of 50-50 coporations in eastern Europe. You and Ed Mason took up this topic in the Secretary's policy report only at the last minute. I wonder whether your subconscious has refused to consider the problem important.

Your remarks on financing German imports are sketchy and vague. I find myself worried that our fear of the Eightieth Congress and its willingness to appropriate for German food is driving us into the manufacture of a lot of luxury good items for sale in the US when more substantial products needed for European recovery would make better economic sense. It is true that the shortage of coal and raw materials play a part in all this, and COMUS is concerned with embodying in its exports the maximum amount of labor with the minimum complement of raw material. I am not prepared, because of the raw material position, to accept the Kurt Bloch view that German exports should consist of cheap goods involving small amounts of low grade labor. I think, however, that the necessity to get dollars for exports quickly in order that the Germans may eat may produce a distraction in German economic life which will be hard to correct. You are completely silent on the subject of development of property relations in Germany, the role of US coporations in German economic recovery, and the question of nationalization. Even apart from the Pevan speech, the last problem has been with us in connection with the breaking up of cartels (the disposition of decartelized property) and the question of finding new owners for the property of Nazi manufacturers. Given something like the Colm-Doge-Goldsmith proposals, it is hard to see development of private capital market which can absorb the ownership of "herrenlos" properties.

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I find myself uneasy about your remark that the Army could withdraw in one or two years — it seems to me that this is a poor point to make if we are interested in demonstrating to Europe the fact that we are going to pursue a vigorous foreign policy. I am also not impressed by your discussion of reparation out of current production which seems to me to elide the problems of congressional appropriation for feeding the Germans, the first-charge principle, and the US financing of reparation payments, etc.

The great merit of your piece is that it is complimentary to the State Department. I could pay a lesser tribute to the importance which it attaches at all times to economic recovery, but this would be out of character for me. I am sure you prefer to have the bludgeoning type of criticism which I have furnished you above.

I know that you journalists are not in a habit of pilfering each others property, but I am a little disappointed that you did not find a use for Jo Alsop's remark to me in Berlin that he regarded Dahlan as reminiscent of Manila in 1904. If your mores would permit you to steal the remark without attribution, feel free to do so with or without the introductory material which was the British headquarters seemed like Dura and the French like Saigon. If you are obliged to attribute Alsop with whom I had lunch on Saturday, he is just 36 years old.

Very sincerely,

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E.O. 11652, Sec. 3(E) and 5(D) or (F)
Dept. of State letter, Aug. 13, 1973By MLT/AL, NARS Date 2-29-75~~SECRET~~

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to a point where she will have to suspend imports even of food and coal for lack of dollars.

8. France still has official gold reserves of 440 million dollars, but these reserves are less than half the minimum of one billion dollars which agencies of this Government and the French have considered necessary to maintain confidence in her currency. Uncontrolled inflation is considered to be as dangerous as a decline in imports of food and coal.

9. A few additional dollar or gold payments will become available to France during the next six months. These include distribution to France of gold looted by the Germans, further liquidation of United States securities owned by French nationals, advance payment of United States Army obligations to France, and a further drawing from the International Monetary Fund at the earliest date permitted by its regulations. With the possible exception of the United States Army obligations, none of these sources will provide finances early enough to meet immediate October requirements. Assuming full use of these last remaining resources France will be short of meeting its

minimum

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need. The automotive industry around Stuttgart is presently engaged in producing spare parts.

Other needs are various. Batteries, spare parts, and repair facilities present occasional problems. A scarcity of tires is beginning to be felt and is expected to cause increasing difficulty until new production and reconditioning can catch up with current wastage. The current tire deficit in the British Zone is estimated at 22,000. This is expected to rise to 32,000 by the end of November, but to drop to 19,000 by the end of January. Stocks of both synthetic and natural rubber were found, and the production of buna is being revived on a small scale.

The universal current need is for gasoline. For this reason the major operative problem of the civilian motor pools that have been organized in the cities is to prevent licensed vehicles from engaging in such profitable but unauthorized and inessential traffic as the haulage of furniture and displaced persons. These "pools" differ in their mode of operation and tightness of control. Various check systems have been devised but none of them is entirely satisfactory.

A recent survey in Mannheim has resulted in the delicensing of some 400 vehicles, and the inauguration of stricter controls over those remaining. Trip tickets will be issued to each driver, but to avoid the fuel waste of returning to a central point after each haul, tickets may be made out to cover several operations. As a further check it is planned to place vehicles in certain categories such as food haulage or fuel haulage. Vehicles found carrying commodities other than those for which they were authorized would be delicensed.

6. Labor Supply

Difficulties in obtaining adequate supplies of labor are due to a number of causes. The reluctance to work for money rather than commodities is one. Another is the desire of the workman to cultivate his own garden, to repair his premises, or to forage for his family. Greatest importance, however, should probably be attached to the sharp reduction in the number of able-bodied men in the larger cities. Figures for Stuttgart are informative and illustrative. Had it not been for the war, and assuming a normal trend of births and deaths, the population of Stuttgart in 1945 would have been 450,000. The actual population on 1 July 1945 was 270,000⁽³⁾, or 60 percent of expected "normal". The estimated male population aged 14 to 50 would have been 110,000 in 1945 except for the war. It was actually 34,000⁽³⁾ or 30 percent of normal. (See Appendix B.) This heavy relative decline in the young and middle aged male population is believed to be typical for west German cities, although it has been relieved to some extent by priority releases from the Wehrmacht.

The labor problem has also been alleviated in other ways. Members of the Nazi party have been compelled to work in some cities. An interesting and perhaps unique step was taken in Hannover. There, as elsewhere in Germany, few women left their homes for industry and other employment during the war. Faced with a pressing need for labor, Military Government ordered women to work. They were even made to help clean up the rubble in the streets. The issuance of ration cards in Stuttgart to men 18 to 45 years of age has been made dependent on the possession of a certificate that

(3) The actual 1945 figures cover a slightly larger area than the estimated "normal" figures for 1945.

they are employed 40 hours a week or have presented themselves for employment at the Labor Office.

Urban labor difficulties are in part connected with the transport situation. Workers who have taken up residence in suburbs and outlying districts often have no means of transport into the city or, in the U.S. Zone, are prevented from travelling by the restrictions on civilian movement. We were told in one city that the Army had limited to 300 the number of civilian passes that could be issued for daily travel on the railways, but that it had been necessary to issue 500 more than this to obtain labor to carry on essential city services. The restrictions on civilian movement have been lifted in the British Zone, where they were regarded as unenforceable.

7. Reactivation of Industry

It seems probable that the bulk of the industrial plants now operating in Germany are working for account of the Armed Forces of Occupation. A statement to this effect was made by a high economic official of British Military Government, and the testimony of local MG officials in the several cities visited suggests that the same is true in the American Zone.

This situation may be expected to change gradually. Steps have been taken in the American Zone to encourage the reactivation of industries in the 8 categories of primary importance for the civilian economy:

1. Food;
2. Medical and sanitary supplies;
3. Soap;
4. Textiles, clothing and footwear;
5. Coal and other solid fuels; liquid fuels and lubricants;
6. Articles required for the maintenance of gas and electricity, as well as for railway, waterway, and road transportation;
7. Synthetic fibers;
8. Fertilizers.

Appendix C is a copy of a notice to industries and trade

enterprises in Stuttgart requiring industries in the above eight categories to register and inviting them to apply for authorization to reopen and operate. It was stated that the manager of any enterprise that was to be reopened would have to qualify under the denazification directive. The same or a similar list of priorities is followed in the British Zone.

The chief limitations on the revival of industry appear to be coal and labor, with more emphasis placed on the former by all officials interviewed. At the moment raw materials are not particularly a limiting factor, since accumulated stocks of raw and semi-finished products are often sufficient for the scale of activity that can be carried on with available fuel and labor supplies over the next few months. The Hanomag plant in Hannover, for example, is scheduled to produce 1000 agricultural tractors and 100 road tractors from materials already on hand. Supplies of semi-finished steel are reported to be abundant, and this would be confirmed by casual observation. Bomb damage to industrial plant and equipment is claimed not to be important as a limiting factor.

B. Conclusion

a. While the harvesting of the current German crop will present some problems, the prevention of starvation in the cities will depend chiefly on the success achieved in processing, storing and distributing it. This depends in turn on the availability of fuel and transport: coal and gasoline; railways and motor vehicles.

b. No coal will be available for domestic heating. The adequacy of local wood and peat supplies will depend upon the effective organization of procurement and distribution programs in the cities and upon the availability of labor and transport.

- (b) That the millions whose cooperation is indispensable to the success of such programs are restive under the privations they have endured for years and disheartened at the prospect of a third postwar year of denial for themselves and their families; and
- (c) That their patient and thorough compliance, therefore, can be enlisted only by inculcating widespread public conviction that the measures their governments must take are inescapably necessary in order to avert further hardship in the spring of 1948, the Conference recommends:
- (a) That all governments use to the utmost the full machinery of public education and information at their disposal:
 - (i) to acquaint the farmers with the facts of the world grain situation and the national grain situation which makes it impossible to allow the desired levels of livestock feeding and freedom in the disposal of his grain by the producer;
 - (ii) to inform consumers of the same facts which have inevitably imposed continued restrictions on their diets; and to let them know that the crisis is worldwide, not localized in one or a few nations;
 - (iii) to spread practical information on the shifts and adjustments in farming and household practice which may serve to ameliorate the hardships; and
- (b) in carrying on the educational and informational programs governments make use, so far as possible, of all the various techniques of public information mentioned in the reports to the Conference.

14. Application of Recommendations to Rice

While realizing that the Special Cereals Conference was convened to consider the world position of cereals other than rice, and to discuss the courses of action which might be taken by member governments to insure the maximum collections and efficient distribution of supplies of such cereals,

the importance of rice in the diet of many millions of people and the close interrelationship during the period of shortage between rice and other cereals is recognized, and, therefore, the Conference recommends:

That, insofar as they are applicable, all recommendations of this Conference be implemented in respect of rice in the same manner and to the same degree as in respect of cereals other than rice.

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That procurement, distribution and utilization of cereals and cereal products for human food or animal food, whether imported or of indigenous origin, should be controlled by, or on behalf of, the Governments concerned to the maximum extent possible.

10. Extraction Rates and Dilution

Considering that the continuing food crisis in the world calls for every possible economy in the use of cereals and having regard to the decisions reached at the Special Meeting on Urgent Food Problems held in Washington USA in May 1946, the Conference recommends:

That the rate of extraction of bread grains as well as secondary cereals be maintained or fixed at the highest level possible compatible with public health and that the maximum quantity of secondary cereals be used as human food and the fullest use made of other suitable flour diluents, bearing in mind that the by-products suitable for animal feed incidentally obtained should enable larger quantities of cereals to be made available for human consumption.

11. Industrial Utilization of Cereals

Considering the need to utilize cereals primarily for direct human food, the Conference recommends:

- (a) That the use of grain for the manufacture of beverages, yeast and starch and for other non-feed industrial purposes be restricted to a minimum; and
- (b) Further, that every attempt be made to find and make prudent use of substitutes for grains for this purpose.

12. Stocks

Considering the world scarcity of cereals and the consequent necessity to conserve resources to the maximum, the Conference recommends:

That no country should maintain or seek to maintain year-end stocks exceeding a minimum strictly necessary to assure the distribution of cereals or cereal products within authorized limits.

13. Public Information and Education

Recognizing:

- (a) That the recommended national programs such as strict control of livestock feeding, maximum collections of grain from farms, rationing at continued low levels, restrictions on beverage manufacture, etc., cannot be effective without the cooperation of millions of farmers, traders and consumers;

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PRESIDENTS SECRETARY'S File

DECLASSIFIED
E.O. 11652, Sec. 3(E) and 5(D) of 1973
Dept. of State letter, Aug. 18, 1973
By MLT/ALZ, NARS Date 2-28-75

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COPY NO. 1

THE IMMEDIATE NEED
FOR
EMERGENCY AID TO EUROPE



September 29, 1947

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E.O. 11652, Sec. 3(E) and 5(D) or (F)

Dept. of State letter, Aug. 16, 1973

By ALC, NAAS Date 2-28-75

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IMMEDIATE NEED FOR EMERGENCY AID TO EUROPE

A.

THE PROBLEM

1. The emergency needs of certain key countries of western Europe cannot be met without immediate action on the part of the United States. These countries, particularly Italy and France, are without adequate food and fuel supplies for the fall and winter and without sufficient dollars with which to buy them. They cannot, by their own efforts, survive the major crisis which is already upon them. A collapse of France and Italy could initiate expanding economic depression and political repercussions throughout Europe and, potentially, over a wide part of the world.

2. The following sections of this memorandum deal in more detail with the financial, food, and foreign political aspects of the situation.

B.

FINANCIAL

3. The slow recovery of European production during this year, especially in production of goods for export, combined with a continuing necessity for imports from

dollar

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Dept. of State letter, Aug. 10, 1973

By MLT/BK NARS Date 2-20-75~~SECRET~~

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dollar countries at rising prices have resulted in a severe drain on the dollar resources of Europe as a whole. The overall drain is estimated for the full year 1947 as being of the order of magnitude of 5 billion dollars.

4. Certain countries such as England still have substantial, but rapidly declining, resources available. France and Italy have now reached the bottom of the barrel.

5. France requires roughly 100 million dollars a month worth of food, coal, and basic supplies which must be paid for in dollars. Her receipts in dollars for goods and services which she exports are running at a rate of 10 million dollars a month.

6. France has been meeting this gap by drawing on credits from the Export-Import Bank and the International Bank, by drawing maximum permissible amounts from the International Monetary Fund, by liquidation of United States securities held by her nationals and by drawing down her gold and dollar reserves.

7. We are informed by the French Government that by October 15 France will have exhausted these resources to a

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not only to permit increased river traffic, but also to permit an increased volume of cross-Rhine rail traffic. It is hoped that the progress of bridge replacement will be well under way before the winter is far advanced, so that if the semi-permanent bridges should suffer flood damage the new bridges will be available to take over the job. Should the existing bridges be undamaged, they will be allowed to remain until such time as they must be removed to permit an increase in essential river traffic.

e. Motor Transport

Local transport consists primarily of motor vehicles, though suburban rail lines, where they are in operation, provide useful supplementary facilities. This does not appear to be generally the case as yet, but progressive improvement is to be expected. Tramways are steadily being restored to operation to handle intra-urban passenger traffic.

Of the cities visited the only one in which there was a complaint of a lack of motor vehicles was Stuttgart. This was because the French had removed a large number of vehicles from that area. By dint of considerable effort to collect cars from all over the American Zone, a civilian pool of 1000 cars was assembled. In other cities there appeared to be a sufficient number of vehicles. Essen, for example, has 4,500 vehicles in use (plus 3500 unlicensed) although its present population is less than twice that of Stuttgart. The number of vehicles in Mannheim was also said to be sufficient, but it was admitted that with expanding needs this situation might change. A program has been inaugurated in the British Zone to produce 1500 new trucks and 1000 passenger cars. In the American Zone it is hoped that the eventual release of Wehrmacht vehicles will satisfy any developing

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minimum dollar requirements for the next six months by
from 250 to 300 million dollars. (See following table.)



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C.

FOOD

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Dept. of State letter, Aug. 10, 1973

By ~~ALLIANCE~~, NARS Date 2-28-75

13. Food is one of the fundamental factors in the economic and political problem of western Europe. Reduction or fear of reduction in already low rations is even now having an effect on the political situation particularly, in Italy and France.

14. In these two countries the food problem is double edged. Already existing on minimum scale rations, there are grave fears that actual supplies of grain will not become available in exporting countries in quantities sufficient to satisfy their essential import requirements. Furthermore, without dollars, they will be unable to buy and pay for whatever grain may become available.

15. In Italy the bread (and pasta) ration is now about 290 grams (about 10 ounces) per person per day. This together with the small amounts of other food the average Italian is able to purchase give him 1900 to 2000 calories per day.

16. To maintain this ration the Italian Government has been releasing approximately 400,000 tons of grain per month.

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GRAIN REQUIREMENTS
FRANCE & ITALY
(Crop year 1947-1948)
(millions of tons)

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	Daily bread ration (grams)	Total requirements	Estimated farm collections	Total import requirements	Need from other than U.S. *	Need from U.S. *	Approximate total diet **
Italy	290	4.5	2.2	2.3	1.0	1.3	2000
France	250	4.0	2.0	2.0	.7	1.3	2200
United Kingdom	--	--	--	--	--	--	2800
United States	--	--	--	--	--	--	3450

* These quantities exceed availabilities presently in sight.

** Average diet of non-farm population.

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By NLT:ALC, NARS Date 2-24-75

power relationships involved would force us to adopt drastic domestic measures and would inevitably require great and burdensome sacrifices on the part of our citizens. The maintenance of a much larger military establishment would undoubtedly be required. The sacrifices would not be simply material. With a totalitarian Europe which would have no regard for individual freedom, our spiritual loss would be incalculable.



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Reconstruction (1937-45) Europe

VERTICAL FILE

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THE MARSHALL PLAN -- THEN AND NOW

By Ambassador Harlan Cleveland
U. S. Permanent Representative to the North Atlantic
Treaty Organization (NATO)

SUMMARY: One of the major virtues of the Marshall Plan was the encouragement it gave to European unity and a regional approach to European development. Now the principle of regional cooperation is being extended to other parts of the world. (This is a condensation of an article written for Informations et Documents, a publication of the American Cultural Center in Paris.)

LENGTH: 1,400 words

PHOTOS: None

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THE MARSHALL PLAN -- THEN AND NOW

By Ambassador Harlan Cleveland
U. S. Permanent Representative to the North Atlantic
Treaty Organization (NATO)

(Mr. Cleveland has been a government official, a magazine editor and publisher, and a university dean. He served in United Nations and U. S. aid programs after World War II -- including four years with the Marshall Plan -- and was U. S. Assistant Secretary of State for International Organization Affairs from 1961 to 1965.)

The most striking thing to say about the Marshall Plan is also the most obvious: it succeeded. Europe recovered from the destruction of the world's worst war and went on to economic renaissance and steadily rising standards of living.

But the more important thing to be said is that the basic concepts, principles, and goals of the Marshall Plan are actively at work today -- in South America, in Central America, in Southeast Asia and even to some extent in Africa. For the Marshall Plan was one of those rare acts of statesmanship which are not only relevant to contemporary needs but which feed and reinforce the major currents of contemporary history. This was the true genius of the "plan" first announced in the now-famous address by Secretary of State George C. Marshall before the graduating class at Harvard twenty years ago this June.

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Berlin. Instead of being on the timid defense with respect to France and Germany, and particularly attempting to decide which we would defend if we have to make a choice, I should prefer that we adopt a policy of trying to unify all of Europe. In the Clay-Dulles-Cohen discussion, however, it was impossible for me to get the discussion off the existing basis. More on this later.

Coal - As you have doubtless gathered, we have been making some headway with General Draper on the coal question. I doubt, however, whether our dent will stick unless we can impress the Berlin people, who continue to feed him what we regard as phoney statistics. It is lucky that Katherine Kellogg is not here, for she would have long since been a candidate for a strait-jacket. I am having some difficulty in keeping George's safety valve in good working order.

One awkwardness is that the French do not have a decent coal expert here, which is very foolish of them. In their innocence, they accept propositions put forward in innocence by Draper and Robertson, but behind which lies a lot of guile as George thinks, or more likely in my view a complete Freudian identification of the bizonal area with German welfare. We have hammered hard the point that the French demands are in reality the demands of all of Europe, including the Greece, Italy, Austria, France etc which are equally with Germany on U.S. relief, and that it boots it little with incessant care to get Germany balanced and leave all our other step-children in need of support.

But the French have just come through with a paper of proposals which has to be worked into the synthesis on economic principles being enclosed. I shall have to halt this and get to work.

Hastily and sincerely yours,

Charlie

PS. Ed has just come down from the Secretary's morning briefing (which I do not attend) to say that General Clay has suffered a resounding defeat on reparation from current production and that if we are required to expose a point of view today or shortly, it should be that put out in the Stuttgart speech.

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The third underlying concept of the Marshall Plan was that it should serve as a force for integrating and unifying the nations it served. It is here that we see the relevance of the Marshall Plan to the mainstream of modern history.

For prior to its inception, each nation struggled to solve its own crushing problems on a national basis. Controls were established internally and externally. Restraints were placed in international trade; restrictions were put on the transfer of currencies; obstacles were erected to the movement of people.

Under these circumstances no nation of Europe could hope to build a modern economy within the limits of its own frontiers. Only a much bigger market could sustain the mass production needed for mass consumption and rising standards of living for whole populations. Many European politicians and economists knew this, of course. But they could not find their way out of the maze of restrictions; they could not reverse the self-defeating search for national solutions.

And it was here that the Marshall Plan made its greatest contribution. For the European Recovery Program was not enacted as aid without strings. There was a strong piece of string attached: the Europeans themselves must first get together and draw up -- not many separate national recovery programs but one European recovery program into which all would fit and to which all would contribute.

The immediate consequence of that condition was the establishment of the Organization for European Economic Cooperation. If the

European states were to plan together, if they were to speak to the United States with one voice, they obviously needed a full-time international organization with executive capacity.

To be candid about it, the American condition was not universally welcomed; some governments believed they could do better by negotiating bilaterally with Washington. But they had no choice. I have thought for many years that this particular form of diplomatic toughness was one of the wisest and most far-reaching judgments ever made by the United States Government.

Within the OEEC, the nations participating in the European Recovery Program quickly learned what a British delegate called "the habit of cooperation." In this atmosphere, the nations of Europe turned (with much grinding of the political gears) from policies of isolation and protectionism to policies designed to free up the flow of materials, money and people across international frontiers, to promote exports and tourism, to integrate transport and power systems, to standardize road signs and simplify frontier regulations -- among many other things that are taken for granted today.

Out of the experience of working together in the OEEC, the participating nations established the European Productivity Agency to promote the adoption of efficient, modern techniques in industry and agriculture, and set up a European Payments Union to facilitate the settlement of trade balances.

Later came the European Coal and Steel Community, EURATOM, the Treaty of Rome, and the European Economic Community.

Thus the present institutions of European economic integration -- providing Europe with an economy of scale capable of supplying the people of Europe with rising standards of living -- became Chapter 2 of a European story that began with OEEC and the Marshall Plan.

The meaning of the Marshall Plan -- that recovery was only a first step toward integration -- has infected the rest of the world as well.

The first comprehensive attack on the vast and tangled problem of poverty in Latin America got under way when President Kennedy launched the Alliance for Progress. Its central institutional instrument has been the Inter-American Development Bank -- "the first time in history," one of the officials said, that "a bank has been organized to finance a social revolution." But somehow the nations of the Western Hemisphere had overlooked the lesson of the OEEC; development plans were drawn up on a national basis without serious reference to integration and development assistance was negotiated bilaterally.

But by the time the Alliance reached its fifth anniversary last August, the leaders of the hemisphere had agreed that economic integration must be the major goal of the entire Latin American development effort. The Inter-American Development Bank now has a special fund for economic integration; the Latin American Free Trade Association and the Central American Common Market are evolving; and a

kind of OEEC called CIAP is reviewing multilaterally the country programs of each Latin American nation the way the OEEC so usefully did. The analogy with the European experience was quite deliberate: the study which led to setting up CIAP referred to the need for a "habit of agreement."

In Southeast Asia, the war in Vietnam has obscured encouraging steps toward regionalizing the economy. In that area, the impulse toward multi-national cooperation has been provided by the UN's Economic Commission for Asia and the Far East. An ECAFE body coordinates planning for the Lower Mekong River Project -- a vast scheme for development of the Mekong Valley which would go a long way toward regionalizing the economies of Thailand, Cambodia, Laos and the Republic of Vietnam. Despite the war and present political turmoil, survey work has been completed with the cooperation of more than twenty nations and a dozen UN agencies; initial projects are under way; and President Johnson has pledged a U. S. contribution of 1,000 million dollars to the Mekong and other Asian cooperative programs as they move along and pick up a greater degree of Asian leadership.

Meanwhile the Asian Industrial Development Council has been established and so has the Asian Development Bank; both will work toward regional economic integration, especially in such fields as industry, power, and transport.

Equatorial Africa is perhaps the most "Balkanized" region in the world today; but even here, with astute leadership from the

UN's Economic Commission for Africa, the new nationalists are already groping their way toward a regional basis for development.

The problems of economic development in Latin America, Southeast Asia and Africa are, of course, endlessly different, much more long-range, and infinitely more difficult than the recovery problem successfully attacked with a four-year program in Europe two decades ago. But the experience of every continent is that progress depends on vigorous local initiative to take advantage of external assistance and the evolution of large-scale economics across national frontiers.

* * * * *

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Papers of
Clark Clifford

EUROPEAN RECOVERY AND AMERICAN AID

A Report by

THE PRESIDENT'S COMMITTEE

on

FOREIGN AID

(Parts One and Two)

WASHINGTON, D.C.
November 1947

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II. THE INTEREST OF THE UNITED STATES IN EUROPEAN RECOVERY

The people of the United States face a momentous decision. It is one that should be made only after the Administration has laid before them and their Congress all the available facts bearing on the critical world situation which it has so fully and frankly given to this Committee. The Committee has faith in the sound judgment of the people and of the Congress when they have learned the whole truth.

The question confronting the country is this: Does the United States have a vital interest in European recovery? The elements of this interest are humanitarian, economic, political. They must be weighed in order to determine whether their sum is an American interest which is in fact vital.

The humanitarian appeal is presented by the spectacle of millions of Europeans for whom this winter will be one of cold and hunger. There is deeply rooted in the hearts of most Americans a fundamental human kindness, a will and a desire to give whatever is possible to those who are in dire need of help. Huge sums of money and tremendous quantities of commodities, totaling many billions of dollars, have been made available by the people of the United States since the war to nations suffering from the destruction and dislocations of the most terrible war in history. We, who as a nation are enjoying comparative luxury, cannot in good conscience do otherwise. To withhold our aid would be to violate a moral precept associated with our free government and free institutions.

This moral obligation does not mean blind, unlimited assistance to all who ask for it; nor does it mean that need must be the sole criterion. Aid in any form, public or private, always involves many practical considerations and limitations which temper its kind and quantity.

There is no evidence that Americans have lost their willingness to help the unfortunate. The Committee is completely confident that a demonstrated need

by the European countries for the necessities of life such as food and coal will elicit a generous response in the hearts of our people. But there is a growing realization that even a country with the resources and productive capacity which we enjoy cannot continue to pour out its substance indefinitely without crippling its ability to keep its economic balance and to maintain its national security. Any plan of European aid that we undertake should therefore be a plan for European recovery, with the major objective of restoring that area to a self-supporting position and of bringing to an end the need for continued and indefinite assistance.

Such a comprehensive plan to aid Europe will be expensive. It will involve sacrifices but it may also be cheaper in the long run. The illusion that it would be thrifty to do nothing would be shattered if, by such a policy, the future existence or development of our economic and political institutions should be seriously jeopardized.

Our economic self interest is closely related to the fate of Europe. American trade with Europe has always been a factor of paramount importance to the American economy. A progressive decline in the producing and buying power of 500,000,000 people in Western and Central Europe would have a powerful impact upon American prosperity. Moreover, prosperous conditions in Europe are essential to the maintenance of American trade in other parts of the world. For example, South Africa, Australia, New Zealand, Canada, and the non-tropical countries of Latin America obtain, by means of export surpluses to Europe, the funds with which to pay their import surpluses from the United States. Thus a disintegration of the European economy would curtail the power of these countries to buy United States goods.

The deterioration of the European economy for lack of means to obtain essential imports would force European countries to resort to trade by government monopoly—not only for economic but for political ends. The United States would inevitably have to follow suit. The resulting system of state controls, at

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first relating to foreign trade, would soon have to be extended into the domestic economy to an extent that would endanger the survival of the American system of free enterprise.

These formulations of the United States' humanitarian and economic interests in European recovery sufficiently indicate their importance. But it is United States interest of a third kind which overshadows the others, and with which any plan for the economic recovery of Western Europe is most directly concerned.

This third and most important interest, though it may for simplicity be called political, is in fact very much broader. It stems from the realization that a European recovery program is an investment in the continued survival of a world economically stabilized and peacefully conducted, in which governments based on fundamental democratic principles can prosper, in which right, not might, prevails, and in which religious freedom, economic opportunity, and individual liberties are maintained and respected.

To state this aim recognizes that we are faced in the world today with two conflicting ideologies. The basic characteristics of each are well known. One is a system in which individual rights and liberties are emphasized, where they are protected by basic constitutional guarantees, where the state is the servant of the people. The opposing system is one where iron discipline by the state ruthlessly stamps out individual liberties and obliterates all opposition.

The first regards the strength of international relationships as resting on the maximum of free association—economically, personally and culturally—between individuals in different countries; the foreigner, as well as the native, has a right to his private life and to private interests; and the exchange of such private interests across international borders is even welcomed as the surest guarantee of permanently peaceful and mature state relationships.

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The opposing concept rests on the assumption that international life must be dominated by ideologies; that where ideologies differ, conflict is inevitable; and that so long as ideological uniformity has not been obtained, struggle must remain the keynote of international life. In these circumstances, it is clear that peace is only a military truce; and the national state continues to conduct itself as a fortress besieged by mortal enemies. The freedom of the individual in international life is largely lost and the structure of international dealings derives its solidity only from the iron discipline of the state and the determination of its leaders.

Should this country ever be forced by circumstance to turn from the first of these concepts of international life to the second, it would no longer be able to conduct domestic affairs according to the principles of individual liberty and tolerance which are traditional to it. The continuance of the American way of life and of thought, therefore, requires that the peoples of the world understand the soundness of the first of these philosophies of international life.

The pattern of the United States position in the world has been predicated for at least a century on the existence in Europe of a number of strong states committed by tradition and inclination to this outlook on international affairs, and on the exertion by these states of a powerful stabilizing influence on world society. Happily they have not been the only nations which have shared these feelings and aspirations; but they have certainly represented the greatest single concentration of state power associated with this outlook, and their role in world affairs has been so great as to represent one of the foundation stones of United States security.

But these countries of Western Europe cannot continue unaided to play this role. Their peoples are sorely dissatisfied with their present plight. If democratic means they do not soon obtain an improvement in their affairs, they may be driven to turn in the opposite direction. Therein lies the strength of the

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Communist tactic: It wins by default when misery and chaos are great enough. That is why any program for the democratic rehabilitation of Western Europe must overcome not only the complex economic problems resulting from the ravages of war, but also the deliberate sabotage by the Communists who see in the continuance of misery and chaos their best chance for an ultimate victory.

Open ideological war has been declared already by the totalitarian nations and their satellites upon all other nations and peoples believing in individual liberty. It has been called a "cold war". The first major battle in the cold war is being fought now in Western Europe. It is cold only in the sense that guns are not smoking and bombs and guided missiles are not exploding. In every other respect the ideological war of the Communists is as ruthless and as determined a drive to achieve world domination as a hot war.

The military results of World War II have already put a large segment of Europe under the domination of the totalitarians. The cold war is now being fought for those portions of Europe and of Asia which have so far resisted this onslaught. In this struggle the police states have effective allies in every country beyond the iron curtain. Their allies are the indigenous Communist parties which have loyalty, not to the nations in which they live, but to the Kremlin. These well-disciplined forces have been stripped for action by the open acknowledgment that the Comintern is revived.

It is an historical fact that the sixteen Western European nations which participated in formulating the Paris report are nations which, like our own, have fostered and developed the concept that individual liberty and fundamental human rights are essential to domestic society and hold out the hope for peaceful world relationships. They are among the nations which have joined in a genuine effort to make the ideals enumerated in the United Nations charter a reality. Economic recovery in Western Europe is an objective consistent with and essential to the attainment of these ideals.

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The quick response of the Western European nations to Secretary Marshall's suggestion is an indication that they regard this economic recovery necessary to the achievement of these ideals. It is likewise the most recent demonstration that by tradition and inclination Western Europe desires to maintain the democratic concepts of government. But tradition and inclination are not enough. We know that the democratic system must provide the basic necessities of life now, and that it must quickly rekindle the hope that by hard work a higher standard of living is attainable.

The 200,000,000 people living in the nations under consideration for aid from this country include within their number many of the world's most energetic and gifted peoples. Whatever we do, their own qualities will some day regain for them the measure of influence which they have always been able to exert in the modern world. But until that is done there can be no real balance in world affairs, and no real peace. And unless it is done soon we cannot be sure that their faith in the sort of international life we believe in will be fully maintained, and that their strength, once recovered, will be exerted for the achievement of what has been a common goal.

Therefore, the countries of Western Europe must be restored as rapidly as possible to a position in which they may retain full faith in the validity of their traditional approaches to world affairs, so that they can again exert their influence and authority in international life.

Thus broadly the United States' political interest may be defined. An objective analysis of the situation points conclusively to the need for courageous and constructive action to aid Western Europe, both for its sake and for our own enhanced self-interest.

We cannot have complete assurance that all objectives can be achieved by a planned recovery program. There are risks and pitfalls in whatever course of action we may take. But we must face the reality that dire consequences are

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almost certain if we fail to move decisively at this critical juncture in world affairs. The present situation contains far-reaching implications which indicate that a do-nothing policy cannot be considered as an alternative.

If the countries of Middle-western and Mediterranean Europe sink under the burden of despair and become Communist, Scandinavia will fall into the same camp. The strategically and economically vital North African and Middle-eastern areas will follow. This transfer of Western Europe, the second greatest industrial area in the world, and of the essential regions which must inevitably follow such a lead, would radically change the American position. If it should prove that a weakened United Kingdom could not resist so powerful a current, then the shift would be cataclysmic.

The domestic consequences are such as no American could easily tolerate. The swift and complete conversion to a military footing which national security would require; the abrupt but necessary change in our relations with the rest of the Western Hemisphere; the immediate and sweeping limitation of economic and political life, perhaps extending even to our very form of government.

In such prodigious terms is the interest of the United States in European recovery defined. The Committee is convinced that a sound program for European recovery should be formulated and adopted by the United States with the same boldness and determination, and the same confidence in the worthiness of the democratic cause, which characterized our action in World War II.

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EUROPEAN RECOVERY AND AMERICAN AID



A Report by
THE PRESIDENT'S COMMITTEE
on
FOREIGN AID
(Part Three)

WASHINGTON, D.C.
November 1947

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THE SPECIAL POSITION OF THE BIZONE

A. Western Germany and the Rest of Europe.

No part of the economic aid requested by the CEEC countries is more fundamentally necessary to the recovery of Western Europe than the aid asked for the rehabilitation of German industry, agriculture, and transport. The significance of Germany's position in Europe may best be gauged by a comparison within the United States. The German industrial area is analogous to the industrial district of the United States which extends from Western Pennsylvania to Illinois. If the industrial production of this area were by some calamity reduced by half, it would be obvious to everyone that the economic life of the rest of the United States would be profoundly affected—the loss of producing and hence of buying power in this great section having its repercussions in every direction.

Comparative indices of industrial production of the Bizone and neighboring countries show the lag in Germany. The index for the Bizone, in mid-1947, stood at 51 percent of 1936 and 35 percent of 1938. France, Belgium and the Netherlands range from 85 percent to 95 percent. Italy is 65 percent, Sweden 113 percent.

There is a point beyond which, without the Ruhr, further recovery in neighboring countries tends to slow down. That point has perhaps been reached. A rapid rise in Ruhr coal, steel, and machinery production would have more effect on the forward movement of industries of participating countries, and on the over-all cost of the European recovery program, than any other factor. This is not to propose raising the permitted level of industrial production, since the present rate is so far below this level.

B. Western Germany a Special Problem.

The reconstruction of Germany must be handled as a special case because: (a) destruction from the war, and dismantling industrial plants under the Potsdam Agreement, have reduced industrial productivity more than in other areas; (b) the Bizone nevertheless has excess industrial capacity and much of the necessary industrial materials and facilities needed to produce substantially greater amounts of coal, steel, and machinery than at present; (c) Germans lack the facilities permitted the business men of participating countries to establish contacts abroad, to finance foreign contracts, and for the security of trademarks, etc.; (d) the urgent necessity of reducing Germany's deficit must be viewed in the light of preventing the resurgence of a dangerous military potential; and (e) as an occupying power, the United States Government has a different relationship with Germany than with any sovereign country. The United States will, in a financial sense, be dealing with itself through the European aid plan.

The CEEC report places the deficit of the Bizone with all other countries in 1948 at \$1.5 billions (of which \$1.15 billions are with the American continent). By far the largest item is food. The assumed goal for the standard of living, in arriving at these figures, is a rate of progress which by 1951-52 will give the German people a standard of living about 25 percent lower than present in quantity and less in quality. Even to achieve this means a great expansion of German exports, specifically from an estimated \$275 millions for 1947, to an annual rate of about \$1.8 billion by 1951-52. This will not be easy especially in view of the fact that other nations under the Paris program are

trying to expand their exports, as indeed they must in order to become self-sufficient. But the fact might as well be faced that the United States would not be the gainer if Germany were too greatly handicapped, which would only mean that, having helped other nations to recovery, we would still face a continuous German deficit.

C. Evolution of Policy.

Until the appearance of the European recovery plan, the military authorities were under the necessity of planning Western German recovery more on its own resources and hence less definitely and less rapidly than is now contemplated under a general aid program.

The principal stated Allied objective (Potsdam 1945) was and still is to "prevent Germany from ever again becoming a threat to the peace of the world". Steps included de-Nazification, demilitarization, industrial disarmament, reparations through dismantling industrial plant, and the preparation for "eventual" reconstruction of German political life on a democratic basis. The immediate military directives were calculated to prevent starvation or such disease or unrest as would endanger the occupying forces.

What might have been a conflict between these policies and a policy of economic recovery was hypothetical. The events proved that industrial disarmament had been accomplished by the disintegration which followed the end of the war. The problem of the occupying powers has been rather to put the economy on its feet. The condition was recognized in the change from the first (1946) to the second (1947) Level of Industry Plan.

The Level of Industry Plans were neither a set of goals nor a time schedule. They were primarily a calculated potential from which were derived the amounts of reparations (by removal of industrial plant) which would be undertaken. Steel capacity is an example. Under the 1946 Level of Industry Plan, Bizonal steel production would be limited to 4.7 million ingot tons. The Bizonal Level of Industry Plan, announced August 27, 1947, puts the figure at 10.7 million tons. For comparison, the Bizone area produced 17.8 million tons in the most active prewar year, which was 1938, and 2.7 millions in 1946.

The CEEC Report states, "Other Western European countries cannot be prosperous as long as the economy of the Western Zone of Germany is paralyzed, and a substantial increase of output there will be required if Europe is to become independent of outside support". It is stated, in particular, that machinery, raw materials, food, and other supplies which are required to increase Ruhr coal production deserve high priority. This is a substantial change in point of view. It did not come about effortlessly. There were strong economic and financial pressures in all the countries, including the United States, pushing against political objection among the Allies to the idea of strengthening Germany. The difficulties have, of course, been complicated by the failure to treat the whole of Germany as an economic unit.

It was, in short, quite impossible two years ago to see how our policy was to be shaped. It would have been unreal, at the time, to begin at once to make plans for the policy which we now deem to be necessary.

B File

D. Adjustment of Other Nations to Position of Western Germany.

1. Choice and Necessity. The dependence of other countries on early recovery in Germany emerged concretely, as shown above, in statements at the Paris Conference. It would be excusable to expect, however, that the recovery of Germany would be perhaps a second choice for the participating countries, the first choice being to do without Western Germany's output (now paid for in dollars) if that were possible. Three factors affect that possibility: (1) The necessity for Germany to achieve a standard of living which will prevent reaction and unrest, which is a political consideration; (2) the vital concern of Franco, the United Kingdom, and the United States with reducing the cost of occupation by increasing exports; and (3) the important fact that, at least for a number of years, Germany's output cannot elsewhere be duplicated.

Before the war, Germany contributed to the economic life of other countries by large exports of producers' goods. The broad fields of metals, machinery, and chemicals accounted for two-thirds of total exports. Since the war, the Bizone has made some contributions to other countries, particularly in exports of coal, power, and timber, which were also critically needed in Germany.

The goods most needed by other countries, (metals, chemicals, machinery), are those about which there is most question from the standpoint of Germany's future war potential. These are the so-called restricted industries and they are the most difficult to handle in the political context. Exports from the unrestricted industries, textiles, ceramics, and consumer goods generally, would need to be increased 90 percent above prewar if they alone were to provide the higher export requirements to balance Western Germany's budget. This is obviously impracticable.

This Committee cannot express a judgment as to the military and political implications of choosing between restricted and non-restricted industries. Purely from the standpoint of economic results, German production would be useful to other countries soonest if steel goods and machinery exports were increased (within the limits of the Level of Industry Plan), at the cost of consumer goods exports.

E. Requirements for Recovery.

Rapid progress in the recovery of Germany involves a number of principal developments: (a) The restoration of orderly and efficient administration; (b) the establishment of a unified currency and price system; (c) the removal of the pressure on Military Government to economize in its dealings with other countries; (d) the rehabilitation of mining, transport and manufacturing facilities of Northwest Germany, and the increase in the first instance of food rations, housing, clothing, and other immediate human necessities; and (e) the resumption of normal trade contacts between the German people and the outside world.

1. Government. It has been clear to all observers that German life cannot be restored without the establishment of some form of German government. Only thus can there be developed within Germany responsible agencies with powers and scope adequate to handle nation-wide problems. So long as we have to rely upon local governments or independent zones operating at cross purposes, there is little hope of general economic revival in the country. Two years ago it would have been highly desirable to aim at forming a federalized government embracing the Russian as well as the British, French, and American zones. At the moment

B File

this seems almost impossible. Delay is too costly. The start must be made in the West with what we have.

2. Currency Reform. The first economic requirement of a start in the West is wholesale monetary and financial reform accompanied by the reorganization of the German price and wage structure. At the present time, Germany is supposed to operate with prices largely fixed at prewar levels, but with a currency that has been expanded and re-expanded until the mark is, to all intents and purposes, worthless. This "suppressed inflation", by far the worst in Europe, strikes at every aspect of economic life. The black market is a far greater source of potential income than money wages. Incentive systems applied to one industry, such as coal mining, soon tend to lose their effectiveness, even in the industry to which they are applied, and the effect upon the non-favored occupations is disastrous. Farmers have no incentive to exchange their products with the cities, nor have workers incentives to work. Controls multiply but cannot be enforced. There is no substitute for a stable monetary system coupled with prices which reflect real costs, as a means of restoring functional action between working and consuming. It is an American responsibility that action be taken.

3. The Economics of Military Government. So long as economic decisions have to be made by the officials of our own Military Government in Germany with a view to every possible economy in dollar expenditures, rational reintegration of Western Germany into the Western European economy will be intolerably delayed. Great waste is now resulting not only from zonal division but also from uneconomic use of resources in the effort to conserve dollars. Thus, imported materials from the United States are landed at Bremen and transported over Germany's already overburdened transportation system instead of being handled over the water routes through Rotterdam or Antwerp, which have idle facilities. It is true that by the use of German facilities exclusively, payment can be made in marks and the direct need for dollars by Military Government minimized. We have required that goods and services purchased from the Bizone be paid for in dollars, and by so doing have created a hard-currency barrier in the middle of Europe, contrary to the principle of mutual help which we hope other European nations will follow. The immediate result may be to show a saving on occupation costs, but the final result will be to increase the total cost to the American taxpayer for German and European rehabilitation.

Growing out of the nature of Bizonal (or multi-zonal) administration is a problem of making decisions on priorities as between one zone and another with respect to their competing demands for material or equipment in short supply. There is heavy demand to haul coal from the Ruhr to remote destinations, Bavaria for example. There are competing demands between Laender for shipment throughout the Bizone. Both these demands compete with short hauls from the mines to steel works within the Ruhr. Meanwhile, coal accumulates at the pithhead while a steel plant 30 miles away is idle. The difficulty inherent in the internal government of an area by international negotiation emphasizes the importance of unified economic government for the area as a whole.

4. Rehabilitation of Industry and Agriculture. While all the factors of industrial recovery are linked together, there is no doubt that primary attention must be paid to increasing coal production in the Ruhr. In spite of various incentive schemes applied directly to the production of Ruhr coal, production in the mines inches upward with painful slowness. Until more coal is produced, increasing the output of steel and of all industrial products,

including those of such vital importance as fertilizers, is almost impossible. But coal is not the only bottleneck. Given the present state of the German transport system, not much more coal than is now being mined could be transported. Increased production will require not only American financial aid, but American technical and managerial advice. It will also require the maintenance of an adequate food supply.

The uniquely bad food position of Western Germany suggests that this must be one of the principal points of attack. The ration of the normal consumer in the Bizone today is 1550 calories and this ration has not been fully met in some of the cities. There has been a steady decline in the health and strength of the population in these places. For 1951-52, the goal is 10 percent per capita below prewar and the composition of this diet will be inferior.

The following statistics of the Food and Agriculture Organization of the United Nations (based on CEEC reports) for 1950-51, and figures of the Office of Foreign Agricultural Relations of the United States Department of Agriculture for 1946-47, are of interest:

BIZONE

Calories per capita per day

Prewar (1933/34-37/38)	2,850
1946/47	2,000 plus
1950/51	2,300-2,700

The above are average figures and therefore obscure the differences between farm and city. They also conceal changes in the distribution of the calorie intake among different foods, such as milk, meat, and fats, which are substantially lower, and potatoes and grain (flour), which are relatively well maintained. The discrepancy in calories between the present 1550 ration to the "normal consumer" and the 2000-calorie consumption of the "average" person is very striking. If the distribution and equalization of food are at fault, rather than food production, the problem is one of a total change in the economics of living, including especially prices, wages, and currency reform.

5. External Contacts. Normal communications of the German people with the rest of the world need once more to be fully permitted. Germans lack the facilities permitted the business men of other countries to establish contacts abroad. Until German business men may once more travel abroad and carry on the usual business correspondence without interference, achieving even the minimum volume of foreign trade absolutely essential to self-support will be difficult if not impossible.

H. Conclusion.

The economy of Western Germany is like a lock which needs to be opened. The tumblers of the lock represent steel, coal, food, housing, economic reform, and many other factors. To open the lock all the tumblers must drop simultaneously. Food has been repeatedly stressed as the key. We believe that without higher and dependable food rations the rest of the program will not succeed. But additional imports of food alone will not do the job; they will be ineffective, if not accompanied by a vigorous attempt to reorganize finance, production, transportation and government, at the same time. So long as almost complete

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political, economic, and financial disorganization continues, no amount of outside aid would guarantee recovery. The fact is that the social fabric of Germany has disintegrated. Before the economic and political elements can be reweaved into a fabric, the human factor of morale must revive. We believe that at the present low level of health and morale and the high level of skepticism and economic frustration in Germany, the problem will not be how much aid is promised, but how much reorganization is effected and how soon.

These observations with respect to the German problem are made by the Committee on the unqualified assumption that the United States and the Allies, on making peace with Germany, will take all of the steps necessary to effect the vital end of preventing the resurgence of an aggressive Germany. It is within this frame of reference that these remarks are presented.

The only judgment the Committee has made, as being the only one which lay within its province, is that Europe cannot achieve recovery unless some measure of recovery is also reached in Germany. The Committee believes that there are better ways of preventing the re-emergence of a strong Germany than that of making any economic recovery in Germany impossible.

B File

~~TOP SECRET~~

By MLT NARS Date 2-9-72

- 2 -

nection with the British dollar position.

(2) A summary statement of the Department of State's present views on the content of a European Economic Recovery Program, which has been communicated to Under Secretary Clayton in Paris, to guide him in his informal discussions with representatives at the Conference. It should be noted that no U.S. representative has taken any part in the meetings of the Paris Conference, and that Mr. Clayton has at all times explicitly stated to representatives of other governments that he can in no way commit the United States Government to any course of action.

(3) A report, entitled "Problems of European Reconstruction" which the Department of State is considering releasing informally at the appropriate time as background material on the nature of the economic problems being faced by European countries.

I hope to send you shortly (4) a more detailed statement of the Department's present views and (5) a rough draft of possible required legislation.

You will note that the documents enclosed do not touch upon the capacity of the United States to aid Europe since this is a subject for study by the Committees appointed by the President on June 22, 1947.

I trust you will agree with me as to the urgency of arriving at an interdepartmental position on the host of complicated issues raised by these problems. I should appreciate it if you would designate someone on your staff to work with representatives of the Department of State. I have appointed Mr. Charles H. Bonesteel to coordinate work within the Department of State on the problems of European Recovery.

It seems to me essential to have a first meeting toward the end of next week to discuss the problems presented in the three documents enclosed with this letter.

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In addition

DECLASSIFIED

E.O. 11652, Sec. 3(E) and 5(D)

~~TOP SECRET~~

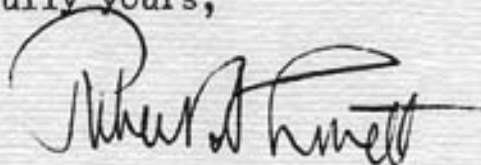
By ALJ, NARS Date 2-8-73

- 3 -

In addition to your views on the substantive issues, I should very much appreciate your guidance on questions of procedure, particularly on the time and manner of getting the views of the members of the Non-Partisan Committee on Foreign Aid (Harriman Committee) and those of the Congressional leaders.

At your request these matters are being handled for the time being on a Top Secret basis.

Faithfully yours,





DELEGATION OF THE UNITED STATES OF AMERICA

Council of Foreign Ministers
American Embassy, Moscow

April 18, 1947

Dear John, Covey (for their eyes only)

Bizonal Troubles - Since I am keeping no carbons, including none of this letter, I cannot be quite sure how fully I developed the present topic in my recent letters. General Draper has been handling the negotiations with General Robertson on the question alone. Yesterday, however, Ed Mason got in on it with Draper so that I am beginning to have a better picture of the issues and developments. I do not have copies of the papers for sending you, however, since Ed has only two papers in one copy each and needs them daily.

The primary issue turns out to be not exports but industrial planning. Clay apparently thought that detailed planning of the German economy by the bizonal agencies was contrary to US policy and impractical. The British, who as you recall had not allowed the Laender in their zone to establish ministries in transport, finance, communications, industry and foreign trade proposed to leave the Laender out of economic operations. It was this difference in view which precipitated the recent row.

The British now want a document signed by the two Secretaries of State which will constitute a new charter for the bizonal merger. I had a glance at the second British draft last evening. The first half of the document is devoted to principles of administration and foreign trade, the second to the establishment of a bizonal level of industry and the resumption of reparation deliveries, including those to the Soviet Union. (It is reported, however, that the performance of the Soviet Union on the Four-Power Treaty has weakened Bevin's resolve to deliver reparation equipment to it).

To take the second half first; there is little new in the present British ideas for establishing a level of industry for the bizonal area except the introduction of terminal dates for the completion of various operations - establishing the new level - July 1, I think. Listing the plants by August 15. Consideration will be given to the establishment of a reserve against the day when the Saar is transferred to France and against the contingency that the Soviet Union has removed more than the new level of industry on a German wide basis would permit from its zone. (You noticed, I hope, the irony to which I called attention in one of the memoranda of conversation to our change in position: we previously refused to move plants because of failure to achieve economic unity; now we want a reserve against the possibility that we obtain unity). The British draft contains provision for a bilateral announcement immediately after the close of the present session. Mr. Bevin has abandoned, however, his idea of trying once more in the CFM to get agreement on a new level of industry and will take no initiative in raising the problem.

From my point of view, the British position is OK, with the possible exception of the immediate announcement. General Draper, however, and I assume General Clay, would dislike a great deal of it. In a memorandum to

Ben Cohen which the General drafted for his signature and L.S. Mason's, he specifically suggests the possibility of excluding the USSR from deliveries on the ground that they have taken more reparation from the Eastern Zone than they are entitled to. This means of course a complete change in the ground we are standing on. I regard it as undesirable. The change in ground, however is necessary if we want to deliver to the French. The problem will be settled here in Moscow by Bevin and Marshall.

The first part of the British draft covers a variety of topics most of which will be left for settlement by Clay and Robertson in Berlin. Bevin does want the Secretary's agreement here, however, to what I would consider to be an unworkable arrangement under which the planning of distribution of foods and raw materials in short supply, and of industrial production is handled centrally but the execution of the plans is handled on a laender basis.

Ed Mason has just come down from the Secretary's morning staff meeting with the news that Draper, Cohen and Murphy all decried the proposed charter as a British attempt to railroad the Secretary into something. They held that no charter was necessary. Ed stated the opposite view and was a minority of one. Further discussion is proceeding among Draper, Mason and Murphy to which it is not convenient for me to be invited.

paragraph

One ~~chapter~~ of the agreement in the first part calls for freedom of contract negotiation for exports by Germans with foreigners subject only (my italics) to the necessity for foreign exchange control. I have suggested to Ed that the State Department could agree to primarily but not to this backhanded way of abolishing cartel restrictions, safehaven, undesirable trade contacts, allocations of scarce materials needed for reconstruction, etc.

The paragraph on imports is o.k.. It calls for great care in importing raw materials needed for the reconstruction of the German economy and "boldness" in purchasing materials needed to expand exports.

The British view is that Bevin and the Secretary should agree on three or four main points here and now; that Marshall should stop off by plane in Berlin and work out the rest with Clay and Robertson (who plans to return to Berlin tomorrow); initial the document before he takes off.....

later

The foregoing was interrupted by alarms and excursions on the subjects of the coal agreement with the French, where changes of words, places for press release, times etc keep intervening, and for sitting in on the tail-end of the Robertson-Clay conversation with Murphy and Mason. Robertson read out the passage in Weir's telegram ~~which~~ concerning his conversation with Clay which had so upset people in Moscow and London. It said that since we disagree so fundamentally politically, it might be desirable if we went out separate ways economically, dividing up our appropriations 60-40 and going through the motions of bizonal administration but each running his zone separately. Clay stated that he was opposed to central planning of production and foreign trade. Robertson's attempt to get a charter signed by the two secretaries is because he believes that in fact the political ideas of the two countries are not very far apart.

Incidentally, the British propose for incorporation in the document a paragraph saying that consideration will be given to devising means whereby the British will get as reparations ~~the~~ such plants as they really want. Robertson states that these are two in number: the rolling mill of the Hermann

Goering Works at Salzgitter and a hydrogen peroxide plant. The former is needed because Britain does not have that type of equipment and is unable to produce or buy it for the next several years; the latter for national defense. I asked whether such an undertaking would commit us in IARA where we might be called upon to arbitrate. It was pointed out that the agreement would only bind General Clay to consider. It would not require the US to sanction a unilateral withdrawal outside of IARA. The British ~~saxxt~~ say they do not know what they mean by devices. I suspect they are as anxious as they appear to be to decide plants available right now before fixing the level of industry because they want to choke IARA with similar type plants before bringing forth each of their prizes, holding back on the first run of plants and getting in a good position in IARA on the second. They probably also want support against the Russians in the four-power negotiation to allocate in Berlin.

Mr. Bevin and the Secretary met at lunch and agreed not to make an immediate announcement of their level of industry reparation delivery plans but to wait six weeks. It was agreed that the allocations would be made quadripartite and that deliveries would go to the USSR. It was agreed to concentrate the bizonal agencies in one spot as soon as accommodations could be found. No early announcement on this point. No agreement was reached on the division of powers between the ~~future central German~~ military government, the bizonal agencies and the Laender, although the Secretary agreed that we should make this division of powers conform to our long-run desires for the division of power between the future central German government and the Laender (see CFM (47) H 122). This is the nub of the Clay-Weir controversy which started the bizonal difficulties. I'll tell you more about it when I see you.

General Robertson will go to Berlin tomorrow to discuss the other issues in the British original paper with General Clay. The Secretary will stop overnight in Berlin on his way back and see Clay and Robertson. I don't know what will emerge on such matters as ~~xxxx~~ financial reform, the printing of currency issue, etc.

I am too tired to write you further of the Saar coal issue. Suffice it to say that I am getting out the telegram tonight and hope that you will have seen to it that the announcement is properly made on Monday.

Sincerely yours,

Barth

B File

Moscow, March 29, 1947

Dear John and Covey,

CPK has asked me to give you a report for your personal use with no circulation outside of CA and the most limited within it. I'm sending it in two copies so that one can be saved for CPK and one for me. Forgive the typing which is my own and is done in our Spasso ballroom with the lights out in what must be a cable failure. CPK hopes to read and edit this later.

The basic topics are coal, reparations and the Ruhr and the background material the relations of Marshall and Cohen, Clay, and Dulles.

Goal is the simplest problem to explain. The OMGUS reaction to our directive was to attack it wholehog and then to disregard it. Soon after our arrival here Draper began coal discussions with the French and British. He invited Mason and CPK to the second or third session of these meetings but has done almost all of the talking himself. You know what the French proposals were from our cables. You also know that we managed to get a cable sent to Berlin asking that merchantable coal be recalculated to take into account some of the types of consumption we felt should be counted as German and that OMGUS made a correction for the "loss" in coking but stated that no other corrections needed to be made and gave its reasons. We have prepared a reply to the most recent Berlin cable which asks that they reconsider again the matter of colliery consumption at higher levels of output and the needs of industry when it is operating more efficiently. At present Draper has that cable and we don't know whether he will send it. My personal opinion is that he won't since Weir, his British opposite, who drafted the Berlin cable to us with Wilkinson, is here and of course takes an even tougher line than Draper does.

Draper told CPK this morning that he would like to reach a tentative agreement with the French ~~xxxx~~ that exports would reach 25 per cent of merchantable at a daily clean coal production level of 330,000 in the Ruhr-Aachen area (370,000 including the Saar) and ~~xxxxxxx~~. These figures would apply if the Saar output now going to Germany would still go to the US and Fⁿ. zones in the future. ~~xxxxxxx~~ That agreement would not be made here but in Berlin. ~~xxxx~~ Weir would talk to his Germans, in Berlin and Essen, asking them what they thought about exports reaching 25 percent of merchantable at 300,000 tons in the Ruhr and would then try eventually to have them reach that level some place between 300,000 and 330,000 tons. Draper says that Weir is worried about the steel industry having enough coal, which he says it does not now have, and about the reaction of the Germans to any coal announcement from Moscow or Paris before the matter has been discussed with them. *The agreement would be announced in Berlin.*

I feel that Draper doesn't quite understand the figures. Although we have not been in any position at all to examine or discuss them we do know that the figures sent to us from Berlin for German needs would not permit exports at the rate of 25% at a level as low as daily out of 330,000 tons in Ruhr-Aachen. Therefore I suspect that when Weir and Draper got back to Berlin they would raise the basis considerably. As you can see our position is not very satisfactory since we don't really know whether Draper and Weir want to do what they say they will do or are caught in an error in calculation.

Now reparations. As you know the Russians have made very clear that they are prepared to agree to economic unity in something much like our terms. They have held out acquisitions of property before a date on which it was agreed future acquisitions would have to be approved by ACA and also control of occupation costs but they seem not to want to make a fight on any other terms. All this agreement is conditioned, however, on a satisfactory agreement on reparations. Molotov said this in his formal speeches and in the Coordination Committee at 3 a.m. on Friday morning Vyshinsky made it very clear when the Committee was summarizing the positions of each delegation.

We come now to the position of the US Delegation and to the main source of Clay's complaint that the Secretary and Cohen don't know what they want, are disorganized and ultimately are going to throw away Germany. And also his desire to return to

Berlin. Clay thinks that we should give the Russians some current reparation to buy economic unity. How high we should go is a matter he admits has to be determined. He suggests for that problem that we should agree here to making a study of the ability of the German economy to pay reparations from current output in the ACA in Berlin. Mason and Kindleberger have pointed out that such a study could not possibly be an objective economic analysis in Berlin and probably would not be possible for any economist or group of economists to make with any chance of reaching a definite answer. Cohen agrees with this and seems determined not to give in to Clay. His proposal, which CPK and Mason have worked over and tightened up, is a paper to be submitted to the CFM pretty close to the end of the session. This paper says that a revision of the LOI shall be carried out and it shall then be determined to what extent this revision raises the level of the German standard of living above average European standards. Current reparation shall be paid from this margin. However it shall not be paid until there is a balance of payments in the German economy except if any recipient country provides the German economy with foreign exchange or acceptable imports up to 75% of the value of goods they wish to receive as reparations. This last provision is also qualified by an obligation not to reduce coal exports and by a statement which says that these interim payments shall not lengthen the period necessary to put the German economy on a self-sufficient supporting basis. Cohen doesn't think the Russians will accept this but feels it is useful for the US to present it in order to be able to say that we have gone as far as we can in making the Russians an offer. The British position on this, as you know, is not to exclude reparations from current output but to say that they cannot be considered until the German economy is self-supporting. Our official position, presumably, is still that Potsdam excludes reparations from current output.

Clay's reaction to all this is violent and a little insubordinate. He says that it will lose the chance of unifying Germany, that it shows how badly this whole matter is being run and he managed to hint to the Russians that he has nothing to do with it. For example in the Coordination Committee he said: "I am not authorized at this time to state the US position on a study of reparations from current production" and in private conversation with Sokolovsky he told him that they (he and S) should have been allowed to continue their discussions of last September. He also has a number of other complaints about the way the Delegation is operated, which are less important, but which, together with those stated specifically above and below in connection with the Ruhr, make him want to leave here Sunday and have led him to promise Draper to get him back to Berlin as soon as possible.

What Dulles position on this is I haven't been told. It may not have been expressed but I feel certain that he wants no change in the official position because he wants above all not to reach an agreement here. I hope CPK will check this statement.

That brings you up to date on the reparation business except that Cohen's statement has not yet been cleared with the President or the Dept. and presumably it would be before it was introduced. In fact I don't know just how much attention the Secretary has given it. CPK should comment here too.

Now the Ruhr business which CPK covered in his earlier letter. Clay fought bitterly on that matter to avoid any internationalization or any type of international intervention beyond something like the RTD Federal Trade Commission to be set up eventually to look over the Ruhr. Dulles of course wanted control by the Western powers. Cohen did a masterly job of getting Dulles to agree to the Dept.'s paper by allowing Clay to attack the Dept. paper and forcing Dulles to come to its defense. Hoover, your friend and co-worked on Germany and Austria, has thrown a bombshell with his statement that the Ruhr must be left in Germany, "being the heart of its industrial economy". We wonder if that will change Dulles' opinion and position. It certainly will strengthen Clay's.

One last comment. We do not feel that there is any possibility of business being done on these issues here. The best that could happen would be that a proposal like Cohen's would obtain a reception as a sincere attempt to do something to meet the Russians views but quite

inadequate from their point of view. In such a situation this conference might break up in a fairly good atmosphere and another one in several months might take up the whole business again. The Secretary is trying to force the pace a little by obtaining a deadline for discussion of the ACA report subjects, which are, in confined to the important points, economic unity, level of industry, reparations and provisional government and central agencies. He asked yesterday that discussion of these points be completed by April 2. He may obtain a deadline but of course it is likely to be later than that. After that the other matters on the agenda would have to be discussed and they might be gotten through in fairly short order. However I wonder if any kind of agreement on any other subject are possible without agreement on these basic German subjects.

That completes the report, unless CPK finds time to add something to it. It should make it easier for you to understand that in fact there is very little happening behind the scenes and that the discussion of the real issues here has so far been very slight. We've had some mail from GA in the last few days which we want to acknowledge, especially two very nice letters to me from Katherine Kellock and a copy of the Hoover statement on Germany sent to CPK.

All the best,

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

SPJ CPK
GRJ and CPK.

P.S. Ed Mason has just come down from the Secretary's staff meeting to say that a line has been decided upon. Today the Secretary will try to obtain an early adjournment and will not present the US position on the matters covered in the report of the Coordination Committee. In the interim Gen. Clay, Mason and Chip Bohlen will prepare a statement of the US maximum and minimum positions on the whole business. Marshall will ask that the CFM begin private sessions because the problems of the future boundaries of Germany, the reparations business and the disarmament treaty must be considered together and cannot be discussed in public. You'll know what has happened to this proposal before you get this letter. Evidently Clay is giving the thing one more try and hopes to be able to pull off something.

B File

B File



DELEGATION OF THE UNITED STATES OF AMERICA

Council of Foreign Ministers
American Embassy, Moscow

March 24, 1947

Dear John, Covey et al,

It is still too early to determine whether the conference will break up in an explosion, adjourn or get down to business. General Clay is trying to force a decision on the U.S. side, but thus far without result. He is proposing that the Council of Foreign Ministers direct the ACA to study reparation out of current production to see what the effects of various programs would be on the cost of making up the deficit in the German balance of payments to the British and the Americans (ducking for the moment the problem of sharing the deficit), and the availability of coal for export. Ben Cohen is counselling a delay until the Soviet Union puts out concrete proposals, on the ground that to recommend a study, except possibly as a counter-~~xx~~ proposal corrupts the U.S. position. Meanwhile Cohen is working with us on a draft of an ingenious proposal which provides that schedules of reparation out of current production be drawn up to run until some such date as June 1, 1955 (final position 1960), such reparation to begin only after Germany has a balanced economy. The gimmick in the proposal, however, is the provision that any country can start drawing its schedule of reparation commodities prior to the achievement of a balanced economy upon payment of 75 per cent of the total value thereof. This may go down with the British who up to now have been maintaining stoutly that no reparation out of current production can take place which would cost them more than present scheduled advances, which they interpret to mean until Germany has a balanced economy. It will contain, if it is used, a safeguarding clause respecting coal for France which wants reparation out of current production if it can get coal too. But it is not likely to satisfy the Soviet Union at all. It seems to be the maximum position we could stand, however. This proposal has not yet been shown to Clay or to Dulles.

The Ruhr - The Times' article and editorial on the breach in the US ranks on the subject of the Ruhr were accurate, and the latter excellent. I have been disturbed over the arena in which the debate has been carried out. Clay and Draper claim that Germany will go communist shortly after any proposal to infringe on its sovereignty over the Ruhr is carried out; Dulles claims that France will go Communist if the demands of the French for coal and the Ruhr are not met. Clay claims that he would be willing to agree to internationalization on a basis which threw in French, Belgian, Dutch etc coal and steel. Cohen is proposing as a compromise adding the Saar and Silesia to the areas to be internationalized. All of this mind you, is not on the basis of the French proposals, but on that of our Departmental draft which provides for local exercise of sovereignty subject only to international supervision with limited rights of appeal to the German government and then to the (anti-German to be sure) ECE.

I would be happier if our conception of European politics were less timid than suggested either by Clay or Dulles. I wonder if we cannot now see that Communism in Europe has already passed its post-war peak, and that Europe today, as in 1919 with the failure of Luxembourg and Liebknecht in

The philosophical heart of the Marshall Plan is easy to overlook because it is so simple: nations in more fortunate circumstances should help those in need, provided only that they are prepared to help themselves. This was expressed later in the familiar phrase "self-help plus mutual assistance" -- a guiding principle throughout the European Recovery Program. It was later extended to the less developed world by President Truman's famous "Point Four" program of international technical assistance. It is the underlying doctrine of the "foreign aid" programs that have been conducted ever since by the United States and other developed countries in the West; and it is the rationale on which a whole family of U. N. agencies have been built.

Another underlying principle was expressed by General Marshall in these words:

"Our policy is directed not against any party or doctrine, but against hunger, poverty, desperation and chaos."

It cannot be recalled too often that the door to the Marshall Plan was open to the Soviet Union and the Soviet-dominated states of Eastern and Central Europe -- and closed by the Soviet refusal to participate, which automatically ruled out Poland and Czechoslovakia too (which had already said a tentative "yes") in those days of monolithic control from Moscow.

One wonders how different the history of Europe might have been during these past two decades, if the Soviet Union had accepted the offer to join with the rest of us in that great cooperative enterprise.

DECLASSIFIED

E.O. 12958, Sec. 3.402

State Dept. 6000-100, June 12, 1979

By NLT-HC:KRS, Date 8-24-80

Moscow, March 20, 1947

~~SECRET~~

Dear Willard:

After a week of somewhat vituperative discussion on demilitarization, denazification, and other minor subjects, the Conference got down this week to a discussion of economic issues. We have now had three days of discussions on all questions concerned with the treatment of Germany as an economic unit and with reparations. The four Ministers spoke at length and we are now in the middle of a second round. So far, the positions of all four have not changed a bit and are exactly what one expected them to be before the start of the Conference. In his opening speech, Molotov made a great many charges against the other three countries of improper unilateral action taken in their zones. The Secretary has been trying to avoid being drawn into discussion of this sort, though he found it necessary to answer certain specific charges. Charlie scored a great coup by producing at the right moment a letter from John Green in the Commerce Department, who had been mentioned by name by Molotov. For the rest, the Secretary wants to handle these charges by submitting in writing an answer. Charlie and I have just finished preparing such a statement for him.

It's a little difficult to see at this point just where we go from here on economic questions. As I said, we are in the middle of a second round but this second round seems to consist to date merely in a re-statement of original positions. The Secretary would like, as soon as may be, to get off this topic and on to the subject of a provisional government for Germany, which is linked together with the question of central administrative agencies. I hope that after these questions have been discussed, directives might be worked out to refer all these matters concerning the short-run treatment of Germany to the Deputies or to economic and political committees. Whether

B File this is B File

The Honorable
Willard L. Thorpe,
Assistant Secretary of State,
Washington.

this is going to work I don't know. At the meeting yesterday, Molotov for the first time avoided charges and undertook a calm presentation of the Soviet position. Many people were much cheered by this. As for myself, I continue to be essentially pessimistic since the gap between the British position and ours on the one hand and the divergent positions of Russia and France on the other hand are enormous.

Outside of the CFM meetings, we have been having a number of informal discussions with the British and French on the coal question. The French, as expected, have taken a strong and rather arbitrary line and have hinted in fashion not too veiled that unless their coal demands are satisfied they are not going to be too cooperative. In separate meetings with the British, we have worked out a joint line indicating how far we are prepared to go. I am enclosing a short statement of the points we intend to make when we meet with them tomorrow.

Apart from these meetings, there seems to be nothing much to report. We continue to work pretty hard but Charlie and I did manage to get to the opera on Saturday and to the ballet on Sunday. The latter was magnificent, "Cinderella", with music by Prokofieff.

On the whole, everything seems to be going as well as could reasonably be expected.

With best wishes,

Sincerely yours,

Edward Mason

cc: John C. deVilde, Esquire,
Associate Chief, Division of
German-Austrian Economic Affairs

B File

P E

Moscow, March 26, 1947

~~SECRET~~

Dear Willard:

Not having attended any previous CFM meetings, I do not suppose my opinion is worth very much. I must say, however, that it is my impression that the Conference, at least with respect to Germany, is not going to accomplish ~~very~~ much.

After two weeks of discussion on items connected with the Allied Control Council Report General Marshall suggested last week-end that a Coordinating Committee be established to study the points of agreement and disagreement among the proposals of the various delegations. I have been sitting with this Committee for three days now and its progress is snail-like, to say the least. Vyshinski is the Russian representative on the Committee and General Clay the American. Although it was clearly the purpose of the Committee merely to state points of agreement and disagreement, Vyshinski insists on arguing the Soviet view point all over again with respect to every detail. This morning we spent two hours and a half discussing three out of seven Russian proposals for handling displaced persons. When the report of the Coordinating Committee is made to the CFM, I suppose the Ministers will again make the same round on all the questions already discussed.

I should say that if with respect to Germany this Conference comes out with a clear understanding of the position of all four Delegations, this will be about the maximum accomplished. I suppose if we are very fortunate, however, we might get a treaty for Austria.

The position of the American Delegation has not yet been crystalized on the question of the Ruhr and of reparations, although we have had considerable discussion on both subjects. With respect to the

Ruhr

The Honorable
Willard Thorp,
Assistant Secretary,
Department of State,
Washington.

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Ruhr, there are three points of view, though the differences between them seem to be lessening. The Berlin group sees no need for any special regime for the Ruhr either now or after the period of occupation. Mr. Dulles is a strong exponent of the position that the Western countries should constitute an allocating authority for coal, steel, and other heavy products which would operate after the period of occupation. The State Department position remains the same as it was before we left Washington. Mr. Dulles has, however, been at least nine-tenths converted to the State Department position and the Berlin group are probably seeing more merit in it than they did initially.

On reparations there is still a pretty strong cleavage between Berlin and the State Department groups. General Clay is convinced that there is no prospect of coming to terms with the Soviets except on the basis of a program of reparations from current output, including the period before Germany becomes self-supporting. What he wants is a directive from the CFM to the ACC requiring a study of reparations from current output designed, among other things, to show how much a given volume of reparations from current output in the period before Germany becomes self-supporting, would increase the cost to the occupying Powers. It is his view that this is necessary to indicate to Congress how much German unification is going to cost us and it will then be up to Congress to decide whether to pay the bill. Most of the rest of us are strongly opposed to such a study unless it is pretty much limited to what could be done in the period after Germany becomes self-supporting. Ben Cohen has been working on a compromise proposition which would provide for some reparations from current production in the period before Germany becomes self-supporting if the recipients supply "usable foreign exchange or goods required by Germany to the value of not less than 75 percent of the value of deliveries". However, we have not yet discussed this proposition in the Delegation. Mr. Bevin has apparently received firm instructions from his Government not to agree to any reparations from current output until Germany is self-supporting. If we ever get down to a discussion of real issues, this, I think will be the crucial issue. However, I should very much doubt whether here in Moscow we come to any serious discussion of this problem.

Our coal discussions with the British and French are still going on but there is nothing new to report. We

are waiting now for the arrival of Sir Cecil Weir from Berlin with the most recent figures on coal. The other day Alphand handed us a proposed letter from Bidault to General Marshall, but since the French proposals were quite unacceptable to us, we advised him not to send the letter.

Charlie and I have been getting along extremely well with our colleagues from Berlin. Although there have been minor differences, we are cooperating very effectively as a team.

Last night the Soviet Delegation entertained the other Delegations at the Ballet. It was Romeo and Juliet, music by Prokofieff, and very good indeed.

This seems to be all the news to date.

With best wishes,

Sincerely yours,

CC to: Mr. John De Wilde

B File

they have decided to announce the unpleasant (to Germans) news about taking over the industrial plants of any size left in their zone. Russell Hill of the Herald Tribune (who is writing a book to Ed) said that the Pieck (Communist) line had changed in the last few months from "The Elbe is no barrier to the SED" to "Economic unity is the device of the western adventurers to penetrate the eastern zone." But what is the real rate of interest in the Soviet Union? And what are present shortages of goods as compared with Soviet strength five or ten years from now?

5. Trade vs Economic Warfare - Interzonal trade in Germany is today conducted between eastern and western zones on the basis of barter. Fred Winant tells me that a certain Col. Mott called on him after the acceptance of the Byrnes invitation to bizonal unity, saying "Now we scrap the level-of-industry plan; now we scrap Potsdam; now we conduct trade interzonally outside the bizonal area for dollars." Winant contradicted him on steps 1 and 2, but hesitated on step 3 since the same thought had occurred to General Clay. The Russians are trading in Europe much along Schachtian lines - credits out of Sweden; tough terms of trade on a raw cotton for cloth barter deal in Czechoslovakia; preclusive purchases in SE Europe of what is left over netted after reparation. Moreover they withhold food from Austria, while bargaining surpluses of sugar for deficits of cattle in Germany. Should we try in interzonal trade not only to maximize our advantage but to minimize his, to withhold iron ore and steel, which the Soviet Union and Eastern Europe need, even when we can get soft coal for it which we temporarily need? Should we expand the range of preclusive buying, in Sweden, Czechoslovakia, etc?

6. German German policy v/s German third country policy - Clay is running a German show; the State Dept tries to tell him from time to time to pay attention to the consequences on third countries. Especially has this been true in France where our policy has been to baby the government along, because of fear of Communist capitalizing on our toughness, while the French have stabbed our German policy in the back. Our failure to resolve the Ruhr-Rhineland last fall is still bitterly resented here (and in the War Department). When we applied the pressure, it was too late, and we failed to carry through on our threats to link the French policy on Germany to the loan, because the loan went to buy elections. On a number of things, - restitution reparation, international waterways, DPs, division of scarce goods between German consumption and export, German policy is also third country policy.

Clay would be willing to agree wholly, however, with the proposition that German policy is Russian policy, though he might not be willing to go as far as Joseph Alsop who says that the only foreign policy is Russian foreign policy, and it must be dealt with simultaneously now in Germany, the Middle East, and China and ultimately, if we lose any one of these, in Latin America, ~~Europe~~ Africa, and the Far East as a whole. I sent a telegram shortly after my arrival here urging the necessity of distinguishing between US foreign policy on Germany as such, and US foreign policy through Germany elsewhere. I

chances of materializing at all are very slim; b) what terms the Russians will demand; c) what terms we will be willing to accept. There is no agreement on these points here. General Clay thinks that by playing the bizonal game to the hilt to achieve economic prosperity for the Germans, or the threat of it, we can get the Russians in on our own terms. Don Humphrey is convinced that the Russians are going to insist on reparation out of current output as the price of coming in, and thinks that Generals Clay and Draper would advise against acceptance. Humphrey put the chances of the Russians coming in at 50-50 early last week; he is inclined now to revise the chances downward.

2. Bizonal unity vs the open door - There seems to be practically unanimous sentiment upon the necessity to maintain the door open at the same time we proceed with bizonal arrangements. This is not shared by the British. But we shall handicap the success of bizonal unity by keeping the door open, not only in the matter of reparation on which a memorandum is enclosed, but in all kinds of ~~economic~~ matters such as coal and steel allocation, interzonal trade (which is to be expanded still further), the necessity to operate the bizonal area within the framework of quadripartite agreement so far as that covers prohibitions. A further example: the proceeds of past exports are held by the zone commanders in trust for ACA. Can the bizonal area spend these funds for imports into the area, or would that violate the quadripartite agreement? If you agree with Clay that the way to force the Russians into quadripartite unity is to make for prosperity, how many quadripartite corners are you willing to cut to achieve that prosperity? How many need to be cut?

3. Reparation out of Current Output - Humphrey can make out a strong case, on the basis of the Molotov speech and his evening with Kopakov shortly thereafter, that the Russian price for unity is reparation out of current output. To achieve this, they are prepared to revise the level of industry agreement. If achieved, they will of course have acquired removals of capital equipment, current output, and possibly ownership of the remaining plants. In their drive for current output, they are of course supported by the smaller countries of Europe which thus far have raised no voice, except Yugoslavia's, on the subject of stopping reparation. Can we concede on this, as we did in Italy? My judgement is that we cannot, and I think this is shared by the high command here. I should be prepared to give concessions on how great a part of the deficit of the bizonal area they would be required to pay, and possibly to throw away reciprocal deliveries which are a deduction from interzonal trade anyhow (since we cannot maintain the case that these should come from outside Germany). But the reparation out of current output would have to stop in the eastern zone, as well as never start from the western zones. But you will form your own views.

4. Present Soviet strength - It is fashionable to interpret Russian demands for current output as a sign of their present weakness in the economic sphere. I worry about this, ~~which may be a bit premature~~. There does, however, seem to be evidence to support this conclusion, partly in the recurring stories from the Soviet press as to confusion and difficulties being encountered in reconstruction, partly in the fact that

Return to Miss Osnes

Letter left behind in
of Loyd Steere. Please
regard as Berlin No. 11.
Note addendum

August 13, 1946

Dear Ken and Ed,

I started this letter yesterday to Ken alone, since I had not heard that Ed was coming until this afternoon. The change of salutation, moreover, gives me an opportunity to try to do better than I had been doing.

Enclosed please find two memoranda. That on property has no bearing on the positive aspects of your problem. It does, however, relate to the lines of activity which the US does not want to allow in Germany. If your final statement is made public, you may want to include a passage or two on carpet-bagging, both by the soldiery and by the business man. If so, I commend you the memo to you.

The second on reparation has been discussed with General Draper who is inclined to oppose it. The reasons for this opposition are partly ideological and strike at the heart of your problem: he thinks that these steps to make bizonal unity a greater success would hurt the chances for quadripartite unity, since they would involve violating ACA procedures for designating, allocating and removing reparation, as well as suggest to the world that we had abandoned the level-of-industry plan and Potsdam. The remaining reasons are practical: the British are considering a plan of this sort; the excess of steel, fabricating capacity, etc lies in their zone, not ours, where only a long string of mostly small war plants would be affected. Finally he adds a reason expressed by General Clay but of possible dual interpretation: failure to satisfy the smaller nations keeps the heat on them to keep the heat on the world for zonal unity. The gimmick in this is that the longer the smaller nations are delayed in getting reparation in capital equipment the less they want it and the more they incline to the Russian position and want reparation out of current output.

So much for the enclosures. At this point I shall force on you, unsolicited, my hasty reflections on 12 busy days in this fascinating headquarters. I doubt whether I can order these thoughts into any sort of shape. Perhaps the most convenient device is to number them to give them the appearance of coherence.

1. Economic and Political unification - You will have to decide a) whether the Soviets are likely to go through with unification at the next CFM meeting on any terms, since if economic unification is postponed beyond then, its

-4-

am more than ever convinced of the necessity to make the distinction; I am still at a loss as to how to do it.

7. Bizonal unity - This subject is in a fuzzy state. There is no agreement as to the extent we are reverting to the SHAEF period. The asymmetry in the way we and the British have organized our zones and our Germans is indicated by the decision to place the six agencies in the field of economics in Minden, the British headquarters and Stuttgart, the home of the Laenderrat, 3 in each. British Germans will represent the British American Germans will represent the Laenderrat. Clay counts on getting the British to adopt our type of system. Litchfield, whom you should see, feels that we shall retrogress to the point of adopting more of theirs. The exercise may be profitable, however, if it leads to prosperity and thence to quadripartite unity, since the task of adjusting to the Soviet administrative system will be far more difficult.

8. Prospects for Economic Recovery - I doubt whether it is possible to get useful impressions on this subject in Berlin. I have none. The Trade and Commerce people are moderately pleased with the progress in exports thus far made, and think that if the hurdles of organization, communications, etc can be overcome they are on their way. General Draper writes the British that they should plan to increase coal production from 40 per cent of pre-war on June 30, 1946 to 60 per cent by December 1946, 80 per cent by June 1947 and 100 per cent by December 1947. This of course is impossible. There is further talk of getting exports to balance imports at the level of the March 26 plan in 18 months. This seems unlikely. Coal and food are the twin keys of the problem.

There is a grave question whether the Germans will be able to produce much work next winter on account of the general level of feeding. Right now, labor vanishes from a large scale project when it learns that this is not an Army venture with the 1200 extra calories in the noon-day meal that that entails. It may be necessary, as Horst Wendershausen suggests, to move to a position of factory canteen feeding for all workers, but unless more food gets here, which now means a deficiency appropriation, the possibilities in this direction will be small. Food and agriculture are now planning to squeeze an extra 100 calories a day out for working normal consumers, on the ground that the anticipated ration for the normal consumer - close to 1350 calories on the ration - does not permit the consumer to work. It may be that a deficiency appropriation in November would speak fairly loudly at the CPK.

But I have run dry on the big picture.

Sincerely yours,

B File

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Addendum:

Two or three items which I have noted down to pass along:

A lot depends in the feeding line on the type of winter. Last year's was unusually mild. The difference between a mild winter and a severe one can be reckoned at 200 calories. This is quite a bit.

The British are urging us to buy Greek tobacco for the German tobacco ration. Winant heard about this some time ago, from the fellow going to Greece to replace Rankin, going to Vienna. The Greeks normally sold tobacco to the Germans. They have a surplus. Britain likes Greece. We have no money. We think the Germans don't have to smoke. The issue will be settled Saturday at a meeting. It is interesting that the Germans who get an opportunity to smoke US cigarettes, as was the case at least of two ladies at lunch chez Horace Smith on Sunday, were doubtful whether they should let themselves cultivate the taste. Or this may be merely a polite begging technique.

Humphrey tells me that Wagenfels (not sure of name but not Wagemann) of the Institut für Konjunkturforschung worked for the Russians last spring on measuring the effect of their removals on their zone. He came out with 25 per cent and this was prior to the March-April wave. Humphrey is inclined to agree with my 35-45 per cent estimate, in contrast to Clay's 15. I have not been able to find the report General Clay referred to. You may be interested to know that Wagenfels now works for the British. He shopped around, would have preferred to work for the US, but got no encouragement here.

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MEMORANDUM FROM MIKE MANSFIELD, M.C.



In my conference with President Truman I told him some of the impressions I had received as a Member of the joint Senate-House Committee which had just returned from Europe. I pointed out the need of a greatly amplified information program to counteract the attacks, the distortions, and outright falsehoods being dispensed daily against us by the Communist press throughout all of Europe. In my opinion it is absolutely necessary that greater appropriations be made to carry out the information program so that the truth can be told about the United States and the good we have been able to accomplish recognized.

In every country visited there was evidences of malnutrition, tuberculosis, and disease. Germany and Rumania presented the biggest starvation areas; Poland the most devastated; and Switzerland, Sweden, Belgium, and Denmark the best off economically. The severe drouth this past summer and fall has affected every country in Western Europe outside of Russia and the satellite countries. In the latter areas rains have been good and on the whole crops will be sufficient to see the people through this year. The products most lacked this winter will be wheat and coal. If wheat is not forthcoming to take care of Western Europe, the bread ration will be reduced to such an extent that many people will find it difficult to live. Even at the present time the greater part of the Italian population is subsisting on a bread ration from 75 to 125 grams a day or from $2\frac{1}{2}$ to $4\frac{1}{2}$ ounces. When one realizes that bread is the stable diet in practically every European country and that very little in addition is eaten, one can begin to comprehend the seriousness of the situation. In addition to wheat, coal is very scarce; and the result is that the European countries now importing coal from the United States pay anywhere from \$17. to \$22. a ton, and, as they have no other goods to send into the United States in exchange, they have to pay for what they buy from us in dollars. The dollar situation is extremely serious in every European country at this time.

The key to Europe's economic revival in my opinion is to increase coal and steel production in the Ruhr. This is necessary to give Germany a modicum of self sufficiency (not to build up her war potentiality) and to revive Europe economically.

If this is done it will take the dollar dependency drain off the U. S., because if Europe does not use its resources to help rehabilitate itself the burden will continue to fall on us indefinitely with results which will be unpleasant both at home and abroad. I urged the President to call a special session of Congress to consider the Marshall proposal and any necessary stop-gap aid in the meantime.

I stated that democracy is stronger in Western Europe today than it was two years ago but that temporary assistance is needed. I took exception to Congressman Taber's remarks that there were no underfed children in Europe, because they are there by the millions for anyone with two good eyes to see, to wonder and to worry about. In any plan agreed to by the Congress I believe that procedure as to its application and distribution should be so outlined as to make sure that any assistance we might give goes towards rehabilitation of the people and not into official or party pockets through graft and corruption. I further

MEMORANDUM FROM MIKE MANSFIELD, M.C.

reported to the President that in my opinion the countries of Western Europe should form an economic union to bring about a freer exchange of goods to stabilize their currency and to consider and work through towards the idea of a political union -- a United States of Europe. While these goals will take time they would in my opinion do much towards alleviating the hatred, fear, and discontent so prevalent on that Continent.



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~~SECRET and Confidential~~
only portions to be shown to others

USDEL, CFM
Moscow

March 17, 1947

JCW
CTO

Dear John and Covey,

I am writing this in my room, without a carbon, so please save it for my personal file.

Let me first express my sympathy to Covey over his loss of his father. I gather that his death was foreshadowed by his serious stroke, and that his life was perhaps lonely and difficult. I am sure that it is nonetheless difficult to adjust too

This conference is not going well on the American side. In the first place, the Secretary does not seem to be getting a grasp of the subject or the technique of the Council very rapidly. He seems hesitant in debate, wanting his remarks written out and edited by him before delivery. He seems moreover, surprised at the content of the remarks levelled at him by Molotov. Bevin and the British are already complaining that they are having to carry the burden of answering Molotov's charges.

Secondly, Ed Mason has not done as well against General Draper as I had hoped. Draper is of course a doughty contestant. But Ed went straight through Berlin, whereas Jimmy Riddleberger and Dulles stayed over two days there (my failure to get there until the last minute was scandalous I realize). Ed lets me carry the ball against Draper, which doesn't suit my book of having the Secretary and Cohen rely on Mason in preference to the GEMUS people. And he does not seem to be avidly soaking up more and more background - as provided for example in the ACC report to the CFM, to equip himself to meet Draper on his own ground. This is the really worrying aspect of the Secretary. He needs to relax in the evening with movies rather than work on the forthcoming problems and papers with Cohen and the adviser group. Nor does he hold a morning briefing each day, in preparation for the topics he can count upon being discussed in the afternoon, as does, for example, Mr. Bevin.

Thirdly, Mr. Dulles is a serious problem. He is very strong on a Ruhr commission with representation of Westphalia and the federal German government, but excluding the USSR, such a commission to have final powers of allocation. He is moreover, bitterly opposed to any central powers at all for the German government, and he doesn't regard as significant to him what the Potsdam Agreement or the Stuttgart speech say on the topic. The other evening, in fact, he practically threatened all of us in a tense little speech which started off that he was sick and tired of being answered on his points with the remark that it was the other way in the Potsdam agreement, or that the Allied Control Council in Berlin decreed otherwise. Lots of things have occurred since Potsdam, he went on to say, including the election of a Republican majority in the Senate. His point of view had to be taken fully into account, or he would have difficulty, when he got back to the United States, in defending what went on at Moscow. Cohen's handling of the incident, as his whole behaviour here in pulling the delegation together to the extent possible, was superb. He made a bland inconsequential remark, then a joke, and finally laughingly said that he had thought we had a bipartisan foreign policy. That left Dulles with a complete and effective answer but without the feeling that he had been in a debate or that he had a chance to return to the topic.

I am having plenty of trouble with Humprhey on a personal level, and general difficulty with Draper and Humprhey on point of view. The

I assume Jack will have told you further to the above that IARA wanted to take title to reparation property only at the German border but that ACA, the Legal Directorate, turned them down and will turn over title for a specified type receipt at the plant site. The risk of the journey to the border will then be borne by the recipient country. I assume that the cost of transport to the border, however, is a charge against Germany on reparation account.

I am afraid I stimulated Werts and Myers more than they me by talking to them about food and its relation to productivity. See para. 8 of letter No 11 to Ken and Ed Mason, plus earlier remarks on conversations with Pancoast-Canning and Wilkinson-Draper. Werts has been interested in the subject of using food as an incentive to production; and Myers has been thinking about the viability, if the C-D-G plan doesn't come into play at all and the monetary system breaks down, of developing a system of using rationing of food and clothing to get work done. I raised the question whether it wasn't necessary to worry not only about food as an incentive but also food as energy and the basis for getting work out at all. If the problem presents itself as Pancoast thinks (and in the terms it is beginning to appear to Wilkinson), the question will be rather one of getting them enough food to work at all rather than the provision of incentives to heightened work.

Werts said that some of the labor unions are beginning to push military government on the subject of food, and that he wants to get them to work now studying food incentive programs. Mendershausen's memo which I sent you this morning recommends feeding of meals at all factories with priority work. The difficulty is, however, getting the food. If Canning and Mester divide the normal consumer into those who are working or have are housewives with more than one child, and all others, they will be able to differentiate between them only to the extent of about 100 calories, which is not a meal, or even a bowl of soup. The adoption of a program with this limited degree of differentiation therefore would require the issuance of new ration cards for home use with fewer calories, and factory feeding of all those calories taken off the card plus 100 more. A tough operation, which is hardly worth carrying out on the basis of 100 calories.

Pancoast is studying the effects of loss of food on the conscientious objectors in Minnesota who let themselves be used as guinea pigs. This information will now be studied as well by Werts and Myers. I suggested that they try to get some doctors to assemble what records exist on concentration camps where hard work was obtained from men being starved to death in a relatively short space of time - 3-6 months depending upon initial physique and strength. It seems to me that the SS must have gone about this pretty coldly, collecting figures and charts on the best calory level to obtain their twin goals of eliminating the people but getting a maximum of work out of them. These studies, if they could be found, might throw some considerable light on the problem of work and energy intake. It may be that kind of a winter.

You will recall that I wrote of Pancoast's fear that 17 millions of the 1947 fiscal year budget had been spent in 1946, and the lack of information which these people had on the subject. Winant, as I said goodbye to him, showed me some startling figures which should be investigated right away by Sam Schurr, on army purchases of food for CMGUS during June. As of June 1, if I have got the initial date straight, purchases of food in the US for civilian supply in Germany had amounted to \$168 million. As of July 31 the cumulative total was \$317 million. What gives? It would seem that the Army had unspent funds appropriated to them for fiscal 1946, and couldn't quite see the good of letting these revert unspent to the Treasury. In addition, they probably had a large surplus of food stocks, which they were happy to get rid of at full prices, or maybe even at current (June) prices, as contrasted with a lower purchase price. This extra food did not take the form of wheat, which couldn't be purchased ~~at~~ during June. Some of it is dehydrated potatoes, some dried eggs, some dehydrated milk which the British have been trying unsuccessfully to get for themselves. Lots of canned goods were included, including spinach.

Several questions will blow up from this deal. One: you will remember how we made the British knock \$10 million off the food they sold to UNRRA out of Army stocks. How will they like to divide up the proceeds of exports with us on the basis of past imports of food when we slough off our excess Army stocks of food to the German economy? Two: How about price? If we let the British sell olives to Austria, we at least make them sell at prices of surplus goods, not at purchase or much less market? Is this extra food, especially canned goods sold at the price of its calories in wheat? Evidently not since wheat used to be figured at \$100 a ton, whereas the dried eggs were \$3000 a ton, and of course have far less calories. Three: how do we get by telling the ~~British~~ Dutch we don't want any fresh spinach for the Germans, at the same time we sell them canned spinach which has fewer vitamins and an equal lack of calories.

I think Sam should get cracking quickly on this issue which smells to high heaven. I am sure CMGUS will pop off really loud on the subject, so if you could get the facts together quickly it would help.

Winant was also disturbed at our letter to GM, which, I explained, was based on the first telegram but not on the successive ones which we did not get in time. I don't know whether this was our fault or War Dept fault, or whether the telegrams following the first were so far behind that our slow letter to GM beat them in. But Graeme Howard has been burning people around here, failing, however, to see Winant who really knew about the deal. You will be interested to know - Don and Frank - that there is no compensation in the loan agreement, since its theory is a shift of assets from one subsidiary to another, which is not done on a rental basis in most companies - but then of course most companies do not lie athwart zonal boundaries, with the Russkis on one side.

And so we say goodbye to beautiful Germany and hello to beautiful Austria.

As ever,

epk



UNITED STATES POLITICAL ADVISER
FOR GERMANY

SEP 4 1946

August 14, 1946

Dear John et al.

This is my last day in Berlin. I leave for Vienna by plane tomorrow morning at 9:15 flying via Nuremberg and Munich. Unfortunately, Clay, Murphy and Draper are all away today so that I cannot get anything more from them. I may get a chance to see Clay if he gets back early enough.

My discussions today have been with Rockwell of Legal, Kerts and Myers of Manpower, and Fred Winant again in Trade.

Rockwell tells me that General Clay has asked him, Col. Jefferson of Property Control and Humphrey of Economic to be prepared to hold forth on Saturday at the staff meeting on the subject of compensation. As I wrote you before, the law to vest and divest title to reparation equipment, ~~which~~ which included, at our suggestion a provision for "adequate and effective" compensation from the German economy has been dormant in the Legal Directorate but can be brought up by us during our month of occupancy of the chair. This law, however, should be related in Clay's judgement to the French proposal for compensation in the form of shares of German enterprises before the Economics Directorate, on which Humphrey and Jefferson are both buying my line, with the inclusion, if approved by Clay of the 50% limitation by industry. I wondered whether we ought not to consider qualifying adequate and effective to read to the limits of the capacity of the Germany economy, or some such limiting phrase which indicates that Germany is bankrupt and can't pay off in full.

One interesting angle appeared. Rockwell's draft law, copy of which was telegraphed to us last spring but which may have been altered since, provides for the ~~comp~~ vesting and divesting of ~~such~~ title of such plants as are allocated for reparation by ACA. Presumably clear title doesn't pass when ACA has not acted to allocate. I suggested that he consider changing that language to conform with the phrase we used in the note to the Soviet Government on removals of allied property, which read in terms of asking each country to specify to ACA what plants had been removed as reparation, and having ACA approve same. The intent of both papers is the same: to settle title to and enable a claim for compensation of United Nations property ~~removed~~ removed ~~in~~ against Germany only for Russian removals which are blessed by ACA. The difference in language however may turn out to be confusing. Horace Smith will attend the staff meeting on Saturday and presumably inform us on the outcome. (If I have done nothing else over here, and I don't think I have done anything else) I have gotten General Clay stirred up a little sooner on the property question.)

most difficult topic of course is coal. Draper is fully committed to thinking of net merchantable, rather than net pithead production. And the plan which the Germans have prepared for the division of coal between exports and local consumption for increases in production above 250,000 tons per day is little short of scandalous, though Draper and Humphrey seem to defend it. The British of course do. The French want the September cut restored on the basis of 220,000 a day production, with increases over 220,000 shared 50 per cent for export and 50 percent for domestic consumption during 1947, 60 per cent for export and 40 percent for domestic consumption during 1948 - on, of course, a net pithead production basis. The German plan, which has not yet been accepted, suggests the restoration of the cut in July, if consumption reaches 250,000 tons a day in May, and a sharing of increases over 250,000 tons a day between exports and domestic consumption on a sliding scale starting with 16 per cent and getting up to 45 for the increase between 320,000 and 330,000; but this is on a net merchantable basis, which retains 100,000 tons out of the 250,000 tons monthly resulting from an increase in production of 10,000 tons a day (taking a month of 25 days) for German consumption before the division takes place.

The climax was capped when I saw in a paper on coal in a file lent to us by General Draper, that at 300,000 tons per day output in the Ruhr, exports would amount to 18,000,000 tons a year on the German formula on a net merchantable basis, which was the equivalent of 32,000,000 tons a day on a net pithead production basis. The conversion was made in order to make comparison with the 45,000,000 tons called for in the Level of Industry plan assumption about exports. I think it would prove difficult to convince the importing countries that the 18,000,000 tons they received by way of exports was really equivalent to 32,000,000; or, differently put, that the 45,000,000 tons of coal for export, provided in the level of industry plan, really meant 28-30 million tons to allow for the adjustment from net pithead to a merchantable basis.

I am afraid that George is unhappy. With Draper making the pace vis-a-vis the Secretary, Cohen, Murphy, Matthews, etc, it is hard for me to ring in George. I can't do it at the top level discussions, where Draper brings Humphrey and Ed and I go. And this establishes the working pattern on papers which have to be altered to conform to the decisions of the Cohen council. I hope this problem will work itself out.

I happen to think that the statement to be made by the Secretary in introducing the resolution on economic unity is quite poor. Draper wrote the first draft, and didn't show it to Kason and me until it was discussed in the Cohen council. Out of a misguided economic loyalty, and because Ed didn't take a strong lead, I had to pull my overall punches - holding back the criticism that the paper should be less particularly related to the directive and more in the nature of a general disquisition on why we want economic unity, what our attempts to obtain it have been, why we went ahead on the bizonal basis, how this reveals our concept of unity, etc - and saving my criticism for details - of which there were plenty to criticize. This is illustrative of the general difficulty we face - we in this case being GA.

By way of consolation, let me say that Murphy, Matthews and Riddleberger, while they stand in solidly with the Secretary, are contributing almost nothing to the content of the political papers and that Parkman and Litchfield from CENS, I A & C, make the pace on these papers. All of them have some Dulles difficulties, and no paper at all worth having would be forthcoming were it not for Cohen's cohesive influence and drafting ability. But I do find it irritating that the FGOs can sit like dopes in a bog without contributing anything to the discussion and emerge without losing face.

Thelma will continue to send you drafts. In certain cases, as with the economic unity one, we shall send off what we think is an ultimate version, only to find later than it is revised still further. You will have to forgive us for this. Eileen Tekley is in the pool, rather than working with us. She is on the 2 5 to midnight shift, which gives her an opportunity to see the town, which she appears to be enjoying. Thelma is helping out Selma, who is either ill or too ~~busy~~ ^{busy} because of the multiplicity of economic subcommittees on Austria. Rogers has been having difficulty with Reinstein, who insists on handling the negotiation on both the German assets and the Economic clauses subcommittees, and who orders Charlie and Arthur Marget around ~~xxx~~ in preemptory and ~~fraxqextix~~ sarcastic fashion/ on occasion.

In general, I am more discouraged than ever. Dulles does not want an agreement, though he renders lip-service to economy/ unity and a provisional government. Matthews is openly hoping that we don't agree. Clay's arrival today will precipitate a clash with Dulles, but also render life more difficult for some of us.

I hope to write you again shortly when I feel more cheerful; and even now I recognize the likelihood that the present aspect of things may change shortly. Letters from the office are likely to be less candid. Please guard the present one even from the division, except in appropriate passages.

My best to all the division,

Charlie (Kindickson)

PS. I certainly made a mess of that boat trip. The boat took 7 days, instead of the five which I thought (and which Leo confirmed). The delay of two days at sea ate up the rest of the four days I had planned to spend in Berlin.

Haraldson in Berlin is very fed up with OMGUS, Humphrey, the Department, and in particular GA. George Jacobs didn't conduct himself with proper humility - I do think it awkward that he felt himself obliged to make a courtesy call on Draper as a representative of the Department, in company with Selma Freeman, etc etc etc. Lots of frustration and beefs everywhere.

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DEPARTMENT OF STATE

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DECLASSIFIED
E.O. 11652, Dec. 30, 1973 and 5400

DEPT. OF STATE LTR. 1/18/79

SECRET, NARS Date 2-9-79

CERTAIN ASPECTS OF THE EUROPEAN RECOVERY PROBLEM
FROM THE UNITED STATES STANDPOINT

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: This is a working paper for :
: discussion purposes only :
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THE WHITE HOUSE
Washington

C O P Y

April 12, 1950

Dear Mr. Lay:

After consideration of the Report by the Secretaries of State and Defense, dated April 7, 1950, re-examining our objectives in peace and war and the effect of these objectives on our strategic plans, I have decided to refer that Report to the National Security Council for consideration, with the request that the National Security Council provide me with further information on the implications of the Conclusions contained therein. I am particularly anxious that the Council give me a clearer indication of the programs which are envisaged in the Report, including estimates of the probable cost of such programs.

Because of the effect of these Conclusions upon the budgetary and economic situation, it is my desire that the Economic Cooperation Administrator, the Director of the Bureau of the Budget, and the Chairman, Council of Economic Advisers, participate in the consideration of this Report by the Council, in addition to the regular participation of the Secretary of the Treasury.

Pending the urgent completion of this study, I am concerned that action on existing programs should not be postponed or delayed. In addition, it is my desire that no publicity be given to this Report or its contents without my approval.

Sincerely yours,

(SIGNED)

HARRY S. TRUMAN

DECLASSIFIED by authority of:

Mr. James S. Lay, Jr.
Executive Secretary
National Security Council
Washington, D. C.

HENRY A. KISSINGER - ASST. IN THE

PRES. FOR NATIONAL SECURITY AFFAIRS

FEBRUARY 27, 1975

Signature

H.C.

Date

4-8-75

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PRELIMINARY REPORT

DECLASSIFIED
E.O. 11652, Sec. 303 and 307

By NLE NARS Date 2-9-72

CERTAIN ASPECTS OF THE EUROPEAN RECOVERY PROBLEM
FROM THE UNITED STATES STANDPOINT

This report constitutes a preliminary estimate of certain of the considerations which warrant attention in connection with the problem of European recovery and United States aid. These considerations are set forth tentatively, and they should be accepted with caution; for the factual material on which they are based is still far from complete. They will be subject to modification and revision in the light of the facts developed by the European nations themselves in the course of their own study of the problem of European recovery, and the conclusions arrived at by the committees appointed by the President to examine the relationship between the domestic economy and further aid to foreign countries. This report does not purport, therefore, to represent a final answer to the questions treated, and its purpose is only to bring out certain of the elements of the problem in the light of the facts presently available.

July 23, 1947

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E.O. 11652, Sec. 302 and 309

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BY *NAT* DATE 2-9-77

I. THE SOURCE OF UNITED STATES INTEREST

The factors which have impeded the general recovery of European economy since V-E day need no elaborate description. They have been widely analyzed and discussed in the United States. For purposes of this report, it is sufficient to note that they include, in addition to certain long-term trends of European development, the following factors, most of which have arisen directly from the recent war:

- (a) The physical and psychic exhaustion of people everywhere;
- (b) the feelings of disillusionment, insecurity and apathy occasioned by the developments of the post-hostilities period and particularly by the tendency toward division of the continent between east and west;
- (c) the destruction and depreciation of physical plant and equipment;
- (d) the depletion of financial reserves, particularly in foreign exchange and external assets;
- (e) social and economic dislocation, including the breakdown of the pre-war institutional patterns and the destruction of the machinery of economic intercourse;
- (f) the prolonged delay in adjusting German economy to production for peaceful purposes.

In consequence of these factors, and of other lesser ones, we face a situation today in which important industrial and population centers of the continent

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DECLASSIFIED
E.O. 11652, Sec. 203 and 209

By NLT NARS Date 2-9-73

CERTAIN ASPECTS OF THE EUROPEAN RECOVERY PROBLEM
FROM THE UNITED STATES STANDPOINT

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E.O. 11652, Sec. 2(a) and 3(c)

By NAI NARS Date 2-9-73

**CERTAIN ASPECTS OF THE EUROPEAN RECOVERY PROBLEM
FROM THE UNITED STATES STANDPOINT**

This Government will soon be called upon to discuss with European governments the problem of European recovery and to determine the part which the United States should take in its solution.

The purpose of this report is to examine the elements of the problem in their relation to the interests of the United States and to suggest some of the considerations by which this Government might usefully be guided in determining its attitude in the questions at issue.

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By MLT NARS Date 2-9-73

FOREWORD

The attached report has been prepared in the Policy Planning Staff of the Department of State.

It would be erroneous, however, to present it as exclusively the work of that Staff. It is in large part based upon the studies, recommendations and suggestions of a wide cross-section of the operating and research units of the Department. The role of the Staff has consisted chiefly in organizing and digesting this material and developing a unified set of conclusions.

The Staff wishes to express its appreciation for the loyal and enthusiastic support which it has received from the several operating and research units of the Department and for the excellence of the contributions which they have made.



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By HLT DATE 2-9-73

are unable to recover by dint of their own efforts the living standards which their peoples enjoyed prior to the war. In many instances, they are not even in a position to prevent, unaided, a further deterioration of the conditions under which their peoples are obliged to live.

Further deterioration might be disastrous to Europe. It might well bring such hardship, such bewilderment, such desperate struggle for control over inadequate resources as to lead to widespread repudiation of the principles on which modern European civilization has been founded and for which, in the minds of many, two world wars have been fought. The principles of law, of justice, and of restraint in the exercise of political power, already widely impugned and attacked, might then be finally swept away--and with them the vital recognition that the integrity of society as a whole must rest on respect for the dignity of the individual citizen. The implications of such a loss would far surpass the common apprehensions over the possibility of "communist control". There is involved in the continuation of the present conditions in Europe nothing less than the possibility of a renunciation by Europeans of the values of individual responsibility and political restraint which has become traditional to their continent. This would undo the work of centuries and would cause such damage as could only be overcome by the effort of further centuries.

United States interests in the broadest sense could not fail to be profoundly affected by such a trend of events.

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By NLE NAME Date 2-9-73

In the first place, the United States people have a very real economic interest in Europe. This stems from Europe's role in the past as a market and as a major source of supply for a variety of products and services.

But beyond this, the traditional concept of U.S. security has been predicated on the sort of Europe now in jeopardy. The broad pattern of our recent foreign policy, including the confidence we have placed in the United Nations, has assumed the continuation in Europe of a considerable number of free states subservient to no great power, and recognizing their heritage of civil liberties and personal responsibility and determined to maintain this heritage. If this premise were to be invalidated, there would have to be a basic revision of the whole concept of our international position--a revision which might logically demand of us material sacrifices and restraints far exceeding the maximum implications of a program of aid to European reconstruction. But in addition, the United States, in common with most of the rest of the world, would suffer a cultural and spiritual loss incalculable in its long-term effects.

It is on the recognition of these realities that U.S. interest in European recovery is founded. And it is from this recognition that any assessment of the proper role of the United States in a European recovery program must proceed.

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By AL-1 NARS Date 2-9-77

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II. NATURE OF THE PROBLEM FROM THE UNITED STATES
STANDPOINT

As indicated above, it is important industrial and population centers of the continent which are most in need of outside aid. It is these areas above all which lack the agricultural resources and raw materials necessary to their own support. They can make up these deficiencies only by imports. The typical economic function of these areas is to process raw materials produced elsewhere and to pay for these raw materials with part of the finished fabricated products. They must have imports to feed their people and their machines, and in normal times the products of their people and machines serve to pay for these imports. Because of the disruption of the production processes in these areas their dependence upon imports has increased. But they cannot pay for increased imports until their production and their export possibilities have not only been restored to, but have surpassed, pre-war levels.

Production has been vigorously increasing in most of these areas, but it is still far below requirements for minimum consumption standards or speedy rehabilitation. Furthermore this revived production is dependent on the maintenance of imports for which the peoples of these regions cannot yet pay. To satisfy even their irreducible minimum requirements they have found it necessary to turn to the Western Hemisphere, as the only part of the world which, generally speaking, has sizeable surpluses of production in the commodities they most need. In so doing, they have drawn heavily on

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By NLT NARS Date 9-73

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their own gold and dollar resources and on the readiness of the people of this country, and others in this Hemisphere, to furnish aid by grant and loan.

The assistance already granted to Europe by the United States in the form of loans or grants since the termination of hostilities has been very considerable. It has totalled about ten billion dollars. Many Americans wonder why it has not achieved greater results and why, in particular, it has not served to eliminate the dependence of the Europeans on abnormal financing of their import requirements.

As far as can be judged from the data at hand, there have been two main reasons for this.

The first is that in many instances our aid has simply not been enough. In some instances there has been an underestimation, for which we ourselves share responsibility, of the extent of war-time damage and of the cost of reconstruction. In other cases unpredictable events, such as the severity of the past winter, have rendered calculations unreal. Furthermore, the rise in prices of commodities imported from the U.S. and other countries has had a similar effect.

The second reason is that in the period immediately following the German collapse the pressing need for emergency relief demanded so great a share of the resources devoted to the aid of Europe that recovery and reconstruction had to be relegated to second place. In these circumstances it was not possible to initiate comprehensive, well thought out and effective programs of recovery, national or international, to which U.S. aid

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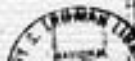
could be geared. Notable steps were taken by many European countries to restore their level of production, frequently at the expense of prolonged hardships for their populations, already strained by the deprivations of war and the German occupation. But this recovery was always limited by shortages of materials available only from abroad, and its progress was uneven. We have now a far better opportunity than heretofore to construct a program for recovery that will guide production to the levels at which required imports can be paid for in the normal manner.

As things now stand, the dependence of the main European trading nations on abnormal means of paying for their import requirements has not yet been remedied. It plainly cannot be remedied by a mere continuation of the approaches, both here and in Europe, which have prevailed in the past. Yet this dependence must now be removed, if these European peoples are not to be permanently pauperized and if the United States is to be relieved of a burden which no nation could be expected to bear for long.

A new approach is therefore required, and it must rest on a new assessment of the resources needed and of the conditions under which they should be made available and utilized.

The essential problem is accordingly to make available to these countries those imports necessary to reestablish their economies on a pay-as-you-go basis. The abnormal element in the present situation is that those

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By NLT NARS Date 2-9-73

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requirements are greater than usual, and the means to pay for them less than usual. Our program of aid can be designed to the end of rapidly eliminating the need for aid, because production in the European countries can be raised to the point where the need for imports is reduced and the means of paying for them by an export surplus are increased. The inspiring promise of this situation lies in the fact that it is possible for U.S. aid to have its effects greatly multiplied through the restoration of high levels of production in these countries.

For this reason, if for no other, our concern would naturally be with those highly industrialized and heavily populated areas which have not only the greatest need for imports, and hence for foreign exchange, but also the greatest possibility for expanding their production and exports.

This does not mean that we need interpret narrowly the scope or function of our assistance. The problems of these key areas involve in many respects the recovery of the European area as a whole; and our readiness to aid must be addressed to that recovery itself and to all those who are prepared to take a loyal part in achieving it. We still hope that this circle will eventually come to include all the nations of the continent. But since the total demands upon us, even in Europe alone, plainly exceed in many instances our capacity to produce and export, we shall be obliged to make choices and to husband carefully the resources and facilities which we can spare for this purpose. It is here that we must bear in mind

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By NLT, NARS Date 1-9-72

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that our immediate possibilities for helpfulness relate primarily to the alleviation of the difficulties of the highly industrialized, heavily-populated trading nations which have the greatest need of imports and which cannot at this time acquire the requisite amounts of foreign exchange with the produce of their own economies.

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By NA-1 HARS Date 1-9-73

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III. THE ELEMENTS OF EUROPEAN RECOVERY

The principal requirements for the economic recovery of Europe are the revival of industrial and agricultural production, the rehabilitation and effective use of the European transport network, the development of facilities for increasing intra-European exchanges, and the meeting of interim import deficits.

A. Revival of Industrial and Agricultural Production.

Production must be restored to enable the countries concerned to reduce their abnormal dependence on imports, particularly from the dollar area, and to cover their normal import requirements by the proceeds of exports.

This constitutes the indispensable axis of any adequate and realistic program. Unless a program holds out solid promise of substantially accomplishing this end, it can be considered at best only a partial and uncertain answer to the problem, and at the worst only another inadequate palliative.

While some of the materials required for this purpose must come from abroad, the greater part can and should be provided from European sources. The emphasis in U.S. aid in this field must be laid on assisting the Europeans to overcome the principal bottlenecks in the restoration of production. If imports from the U.S. are in large measure bottleneck items, it will mean that the value of the resulting addition to production in Europe will be a high multiple of the cost of the goods imported. Productive power otherwise idle can be put to work once the bottleneck items are available.

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Once the major bottlenecks now holding back production have been removed, further limitations in terms of capacity will be encountered before a position of balance at satisfactory living standards will be reached. The problem will be partly that of restoring capacity, and partly of new construction to extend capacity beyond the levels of pre-war. The increment of new industrial capacity is required to make up for loss of overseas investments and other assets, and to develop satisfactory standards of living.

1. Industrial Production.

The most immediate limitation on the level of industrial production in most European countries is the supply of raw materials. Easily the most important of these is coal. Under present conditions very considerable imports of coal are required to maintain existing production levels; should imports be reduced there would be a serious retrogression. Deficiencies in coal are translated into deficiencies of almost everything else. Insufficient coal means insufficient steel, fertilizer, machinery, synthetic fibers, et cetera. Insufficient fertilizer and simple agricultural tools mean smaller crops. And so the circle widens. Consequently not only does Europe require unusual imports of coal, but the coal deficiency leads to abnormal requirements of many manufactured and agricultural products which Europe would produce for itself if coal and raw materials were available. A very high place in any recovery

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plan for Europe must be given to a program for the restoration of coal production.

To some extent the production of coal in Europe may be increased under an aid program by the supply from the United States of certain critically needed mining or transportation equipment that will help raise coal output. But perhaps even more important in the stimulation of coal output would be the impact of a coordinated plan for European recovery in general that would include those administrative measures required on a broad front to increase the output of coal by increasing the number and efficiency of the miners.

European production of certain other raw materials may also be increased but for many of them, such as leather and natural textile fibers, Europe is normally an importer and will probably continue to be so.

So long as the coal shortage remains, steel will also be in short supply in Europe. This is an especially serious limitation on the speed of European recovery because of the large requirements of steel for industrial, agricultural, and transportation machinery and for structural purposes. Until the coal shortage is relieved the best that can be done is to insure that the limited supplies of steel available to Europe do actually go to those uses most effective in promoting the general recovery of Europe as a whole. Meanwhile the importation

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from the U.S. of certain steel products such as machinery or transport equipment or the steel to produce such equipment, will be of high urgency since these products frequently constitute bottlenecks in production or in transportation.

One force working toward a high level of production may be a costless but effective component of a good recovery program. That is administrative efficiency and drive. Conditions in Europe to date have been such as to discourage rather than to encourage this important though intangible element of production. A well-conceived and strongly-backed program for the recovery of Europe can transform lassitude and futility into enthusiasm and purpose.

A joint plan for European recovery will lead to increased efficiency through other means as well. In particular, the working of the plan would lead individual countries to maintain a high level of efficiency in their economic affairs.

2. Food and Agriculture.

Shortages of food and agricultural products in Europe add to the difficulties of maintaining industrial production, and are themselves in part a consequence of production difficulties. Partly because of the weather and partly because of lack of fertilizer and equipment, crops in Western Europe are this year considerably below the pre-war level. Even at the pre-war levels of production

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the countries of Western Europe normally require large food imports to cover an important part of their consumption. With population increased both by normal growth and by population transfers these countries require greater imports than ever, and at present the supplies from Eastern Europe are not available in anything like pre-war quantities. The present rate of overseas imports of food into Europe have not been fully adequate to support minimum consumption requirements.

In view of the prospects for continuing world shortages in both bread grains and fats for several years to come, it is clear that determined efforts to increase supplies from European sources must be made. The deficit in food supplies falls primarily on the urban areas of Western and Central Europe. If European industrial production is to be increased, food supplies to these urban areas must be increased.

In a number of countries, the position of urban consumers has been greatly worsened by something approaching a breakdown in the normal process of exchange of farm and city products. The inability of urban areas to produce what the farmer needs and wants means that the cash the farmer receives from the sale of his produce is not sufficiently attractive to bring about the voluntary sale of his produce on an adequate scale. The result has been the diversion of farm products into black market channels on the

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one hand and increased retention on the farm on the other. Some improvement in the general European food situation appears possible through increased exchanges among the various European countries, although the prospect for an increase in the immediate future in the supplies available from Eastern European sources does not appear very bright.

It is therefore necessary that action be taken to make more supplies available to urban consumers in the Western and Central European countries from indigenous production. This involves both increased farm production and increased efforts to see that farm produce gets to the market. The latter requires a carefully worked out attack on the basic causes which have led to the breakdown of the normal means of exchange between town and country. It involves increased production of goods the farmer needs, improved methods of collection of farm products, and measures for stabilizing prices and halting inflationary price spirals.

With respect to increased agricultural production, the possibilities of cooperative action by the European countries and possible American aid in the following fields deserve study.

- (a) There is a continuing need for substantial quantities of agricultural machinery and implements. Increased supplies, either from the United States or from Europe (particularly Germany) would help raise agricultural output.

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- (b) Action to make increased amounts of fertilizer available to the European countries appears to offer the best single means of achieving greater production. The possibility of increased exports from the U.S., if necessary in preference to shipments of food, should be studied. More nitrogenous fertilizer might be produced in Germany if more coal were available. Potash and phosphate are also available from sources in Europe and North Africa.
- (c) In view of the shortages of labor in certain countries and of unemployment in others, an important contribution to increased agricultural production could presumably be made through improved facilities both for permanent migration and temporary migration in time of peak labor needs.

B. Transportation.

In most of Western Europe there is barely sufficient organized transport to handle current limited requirements. In Germany even important civilian movements cannot be fulfilled. Rail equipment throughout Europe is not only limited in amount but is generally in bad repair and the percentage of unserviceable equipment is tending to increase. A general European trade revival can be expected to face severe bottlenecks at an early date if vigorous

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action is not taken in this field. The output of transportation equipment and parts in European industrial centers is far below present needs.

Here again, the key to betterment seems to lie in the increase in coal production and revival of industrial production. At the outset, particular emphasis should be placed on repair shop equipment and steel to be made available for repairs. While the U.S. may not be able to furnish substantial amounts of completed rail transport equipment, it can probably make a substantial contribution by supplying some components and repair parts and some equipment to expedite European production of transport equipment.

From the standpoint of the overall effective use of Europe's transport system, highway and inland waterway facilities appear not yet to be fully utilized, and these forms of transport could perhaps carry more of the load if efficiently coordinated as between various countries (including occupied areas) and with rail traffic.

The great European waterway networks--especially the international rivers--are handling only a small percentage of pre-war traffic. Facilities, while curtailed, are sufficient to handle heavier burdens provided proper international agreements can be reached regarding traffic movements, economic use of equipment, and the solution of difficult foreign exchange problems.

Present international arrangements covering traffic movements between European countries are inadequate. With the exception of traffic between France, Belgium,

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and Holland, the pre-war international conventions have not been reestablished. The European Central Inland Transport Organization, which was to have temporarily replaced the conventional system of agreements, was helpful in maintaining a minimum of international traffic, but its work was piecemeal and inadequate from the standpoint of general recovery.

Ocean shipping does not constitute a serious material bottleneck in European recovery. The problem is rather one of the distribution of available tonnage between United States and foreign ownership and of the drain on the foreign exchange reserves of the European countries involved in the use of United States tonnage for handling the major parts of shipments from this country to Europe.

Approximately 1,000,000 deadweight tons of ocean-going vessels comprising some 150 vessels, were under construction in European yards at the beginning of this year, and approximately 6,000,000 deadweight tons are understood to be under order in those yards. Presumably, therefore, Europe's own shipping capacity will have increased considerably by the end of any period of European recovery. This being the case, there would appear to be no need for U.S. direct aid to Europe for shipbuilding. In fact, Europe could save some of its resources and imports now being devoted to shipbuilding should the United States be willing to sell some of its better vessels in long supply similar to types on order in European yards.

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C. Intra-European Exchange Facilities.

Any European recovery program which relies extensively on U.S. aid will bear with it the danger of encouraging an unhealthy unilateral orientation of the economies of the participating countries on U.S. economy, and possibly vice versa. This is particularly true in present circumstances. All of the arrangements for intra-European commercial exchange have been disrupted by war; there is a wide shortage of the only generally acceptable medium of exchange--namely convertible currencies or gold; and there is a general lack of export surpluses in Europe itself. This has already led to a state of affairs in which best advantage is not being taken of Europe's own resources. For instance, European countries now committed to bilateral trade agreements seem unable to take full advantage of possibilities for increasing the volume of their production by finding assured foreign outlets for unutilized or underutilized industrial capacity. There are even cases of certain types of food surpluses, such as Scandinavian fish, which cannot be utilized in Europe for lack of suitable exchange arrangements. It may be argued that the purchase of fish as compared with foods of higher caloric value is an uneconomic use of limited funds. However, it represents a source of food available in Europe; and Europe must be able to prove that maximum use is being made of its own facilities before further aid can properly be expected from the United States.

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The following possible remedies for this situation deserve mention:

1. Multilateral Clearing.

One of the most commonly suggested answers to this problem for the short term is some form of multilateral clearing, designed to widen the area of currency convertibility pending the time when general arrangements envisaged in the Monetary Fund agreement can become fully effective. At present, intra-European trade is conducted almost exclusively through an intricate network of bilateral agreements. This system is inflexible and essentially arbitrary in its economic effects. In many respects it tends to limit, rather than to encourage, intra-European exchanges. Consisting as it does of a patchwork of short-term agreements, it gives no assurance of permanency in the channels of trade which it creates.

Presumably these deficiencies could be substantially remedied by the establishment of a multilateral clearing system, assuming that currency revaluations and other corrective measures, if they prove necessary, are made a part of the arrangements. In the initial period, while export surpluses are still few and meagre, such a system would not attain full importance. As production recovers, the part which it could play in general European rehabilitation should become greater. Eventually, it should come to carry a good part of the weight of a healthy and self-sustaining European economy. But even at the outset, it should be beneficial in facilitating more effective use of the limited existing resources.

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If these clearing arrangements should not involve outside support, their exact nature would be primarily a matter for negotiation among the European nations themselves. It is possible, however, that a European clearing center would be found to require a working fund in the form of dollar exchange or some other acceptable medium. In this case, this Government would have to give careful scrutiny to the character and general soundness of the proposed arrangements.

2. Stability in Exchange Rates and Domestic Price Levels.

The European price system is seriously unbalanced. To the inevitable war-time distortions there has been added, in many countries, post-war inflation in varying degrees. Exchange rates as a consequence do not necessarily bear any close relationship to comparative purchasing power.

It is essential that steps be taken to restore internal currency stability within European countries. Again, this is largely a matter for the Europeans themselves. An obvious example of the need for such reforms, however, is Germany. Here the United States can play a direct role, and this Government should take the initiative in promoting among the occupying powers a program of currency and price reform in as wide as possible an area of Germany which would place that area in a better position to contribute to European recovery.

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3. Trade Barriers.

Tariffs and other trade barriers are not now an important limiting factor with respect to intra-European trade, since in most cases both the volume and direction of trade is influenced primarily by the terms of bilateral agreements. With increasing recovery of production and restoration of price stability, tariffs and other trade barriers will probably again become a significant impediment. The reduction or elimination of these barriers envisaged by the projected International Trade Organization is therefore of significance to European recovery from the longer-run viewpoint, and the eventual formation of a European customs union should be held in view as a long-term objective.

D. Interim Deficits in Imports.

Only gradually as production is built up can the individual countries be expected to satisfy more of their own needs for consumption and raw materials and to produce exports to pay for the remainder. Meanwhile merely to maintain existing rates of production, let alone to increase these rates, they will require imports of staple commodities, particularly food and raw materials, beyond those which they can finance out of their own resources. As European production increases, these margins of abnormally financed imports should decline; and if a program for European recovery is to be a complete one, they should be substantially eliminated by the time the program comes to an end. The goal of the program should be a state of

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affairs in which essential imports and the servicing of foreign indebtedness could be covered by exports or services from the importing state or by normal forms of finance. Thus U.S. aid with respect to consumption goods should start at substantially the present level of deficit and decline to zero at some stage of the recovery program.

The importance of this type of aid in European recovery must not be underestimated. Only if the European governments concerned can have the assurance that these abnormal needs will be met in reasonable measure over a definite and prolonged period will they be able to apply their energies and resources effectively to the increase of production on which their future ability to support themselves must rest. It is in this field that U.S. aid will be most needed and can be most effective.

The cost of shipping to carry these bulk cargoes to Europe represents another important part of the problem. At the present time, U.S. Government-owned ships chartered to American operators are carrying two-thirds of the wheat and coal cargoes to Europe. This service, performed at high costs, involves a dollar drain on the European countries running into the hundreds of millions of dollars. The transfer of U.S.-owned ships to European operation would permit Europe to take another step toward supporting itself and would reduce the total cost of U.S. aid to Europe.

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IV. GENERAL CONSIDERATIONS GOVERNING UNITED STATES AID

The principal considerations which should determine the nature of United States aid to a European recovery program are the following:

A. Our aid should cover only that area of the total needs of the program which clearly cannot be met by other resources available to the participating nations. Claims on U.S. supplies should be carefully screened to see that there is no other source from which the desired supplies could advantageously be obtained.

B. Our aid should be concentrated, as far as possible, in a few key items which will have the maximum immediate effect in promoting European recovery. This will contribute to simplicity and clarity of concept. It will also have the advantage of restricting the number of fields in which this Government becomes associated with the needs and problems of European governments. By restricting U.S. aid to a few key items, it will be possible to leave to the Europeans the responsibility for handling the needs of their economies in a multitude of lesser items; and at the same time U.S. assistance in meeting the major needs will free resources through which the minor ones can more easily be met. Particular attention should be given, in selecting the items for U.S. aid, to the critical bottlenecks which impede general European production and distribution.

C. The emphasis of the whole program of U.S. aid should be to help Europe to help herself. Every

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effort should be made to avoid forms of assistance which would increase, rather than decrease, the abnormal economic dependence of these areas on the United States. Whenever there is a choice between supplying Europe with goods for consumption and supplying her with the means to produce those goods herself, the latter course should be chosen unless cost is prohibitive.

D. Our aid should be directed, wherever possible to those branches of economic activity--as for example, coal--the effects of which are apt to relate not just to a single country but to be radiated generally across international borders and to affect European economy as a whole. These branches of activity will tend to be identical with those which the European nations themselves will have chosen to approach through international, rather than purely national, programs. If U.S. aid is directed generally to such branches of activity, the problem of allocations as between individual European countries will be simplified; our aims in extending assistance will be clearer to everyone; we will have in effect a collective endorsement by the European nations of the need for the particular type of aid in question; and it will be harder for trouble-makers everywhere to misrepresent the motives, and to disrupt the effect, of such assistance as we may grant.

E. Our aid must be closely related to our resources and to the needs of a healthy domestic economy. In this respect, careful consideration must

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be given to the eventual results of the studies which the President has ordered to be conducted on the relation of foreign aid to our domestic economy. If the results of these studies indicate, as they may, that certain restrictions of domestic consumption and the reimposition of certain economic controls are necessary to the carrying out of a program of aid to Europe, then the inconveniences involved will have to be weighed against the probable consequences of our failure to extend such aid at this time.

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V. FINANCING OF UNITED STATES AID

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The financing of U.S. aid to a European recovery program should spring from the character of the aid itself. There will be need for varied approaches to the question of financing, adapted to the particular form of aid to be granted and to special circumstances which may prevail. There is no hard and fast rule can be put forward which would be useful and each major item will have to be examined on its merits. But the following general principles might provide a useful criterion in studying individual questions.

Insofar as U.S. supplies are made available simply to make good current deficiencies of food and raw materials, on a declining scale, in the interim pending the requisite increases in European production, they ought generally to constitute straight grants-in-aid. This conclusion flows from the function which they fulfill, which is to carry these peoples over to the time when they will be able to produce enough to pay for their own needs.

In cases where the receiving governments could make at least partial compensation in kind, without prejudice to European recovery, they should be asked to do so.

Programs designed to bring about a direct increase in production present a somewhat different problem. There may well be instances where the aid granted would lead directly to increased production, either

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in individual enterprises or groups of enterprises, and where this resultant increase in production would make repayment entirely possible and desirable on a long-term basis. Such projects would be suitable for consideration by the International Bank or other public or private agencies of international finance, and no project should be financed by this Government where there is a possibility of such outside financing.

Where reconstruction in certain fields is required simply in order to enable a country to balance its international accounts now in deficit, the increase in production capacity should not be mortgaged to pay back the loan. It should be noted that one of the overall purposes of a U.S. aid program at this juncture would be to help put Europe back on its feet. This will not be accomplished if the end of the program finds the European countries saddled with new long-term obligations to this Government arising out of the program itself. There is little point in this Government pursuing, in relation to aid to Europe, a course which would only serve to increase the dollar exchange problem on a long-term basis.

In general, assistance in the form of grants-in-aid should be understood to involve the planning by the U.S. Government of procurement and shipment according to agreed schedules. It should not be required, however, that all commodities be procured in this country. On the contrary, there might be instances

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where it would be definitely to our interest to under-
take outside procurement. Such instances might arise
where substantial savings might be made in the cost of
the assistance granted or where commodities are in
short supply in the U.S.

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VI. CONDITIONS OF UNITED STATES AID

U.S. economic assistance may be granted to groups of European states acting in concert and taking joint responsibility for the utilization of the commodities received, or it may be granted directly to individual countries. Probably, both forms of assistance will be required. In either case, there will be need of clear and firm understandings as to the amount and nature of the aid to be rendered, the purposes for which it is being made available and the ways in which it is to be utilized. The problem of working out these understandings will assume different aspects in the case of groups of states and in the case of individual states, and must therefore receive separate treatment in this discussion.

A. International Groupings.

When U.S. aid is granted to groups of states acting in concert or on the basis of a group program, the problem of the terms under which such aid is rendered is greatly simplified. In such cases, the fact that a number of European countries have been able to agree on the uses to which our aid is to be put is itself the best guarantee that it will be used effectively. A broad section of the European public will then have an interest in seeing that the aid is used economically to further European recovery, and will be quick to discern and remedy any tendency toward misuse or wastage.

For this reason, the main consideration to be borne in mind in connection with any aid granted to groups of states, or to individual states under arrangements jointly negotiated, is that programs of this nature

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should first be evolved and accepted by the European states concerned and that U.S. aid should bear an integral but supplementary relationship to them. In this way, responsibility for the success of the programs themselves, as well as for the effective utilization of the aid, will rest clearly with the receiving states. There can then be no suspicions or doubts from the European side as to the motives or the soundness of concept underlying aid from this country; and at the same time Americans will have the security of knowing that wide circles of the European population, bound together above all by a real and urgent interest in early economic recovery, are committed to the effective use of the assistance given.

B. Individual Countries.

In the case of individual countries, the problem of the terms of U.S. aid is more difficult. Here European domestic political factors enter in to complicate the utilization of aid received as well as the relationship between giver and receiver. Here we encounter the peculiar sensitiveness arising out of national pride and an understandable concern for the preservation of national sovereignty. For these reasons, particular care must be taken to see that the terms under which U.S. aid may be extended to individual countries are reasonable, simple, and clearly related to the goal which both giving and receiving states have in common: namely, the maximum effectiveness of the aid granted.

In determining the condition governing aid rendered to foreign countries in the past, we have had to do

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primarily with shipments of a purely relief nature for essentially emergency purposes. It was not envisaged that those shipments would stand in relation to any particular national programs of a long-term nature or to any over-all continental recovery programs. For this reason, we have few precedents to go on.

In connection with the kind of program discussed in this report, emphasis is indicated above all on the element of protection embodied in Section 3 (e), of Public Law 84 of May 31, 1947, relating to the appropriation of \$322,000,000 for European relief, namely, that each recipient country "has taken or is taking, insofar as possible, the economic measures necessary to reduce its relief needs and to provide for its own reconstruction". If U.S. aid can be made to rest firmly on this sort of assurance, taken in conjunction with a broad international scheme, and subsidiary national schemes, for general European recovery over a given period, there will be a substantial guarantee at the outset that the aid will be effectively used.

This point brings up the whole delicate problem of the relationship of U.S. aid to the policies and methods which the individual receiving countries apply in the handling of their own domestic economic problems. This involves the question of efficiency in fiscal and economic administration. It also involves the broader problem of domestic economic and social policy in general.

It is clear that in the approach to this problem there are two extremes, both clearly to be avoided. Too great a preoccupation with the domestic problems of the

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receiving governments would tend to lend substance to charges that this Government was seeking a degree of dictation over the policies and acts of other governments. To ignore this factor altogether would, on the other hand, constitute an open invitation to the abuse of U.S. readiness to assist and an act of irresponsibility toward the real needs of the European peoples concerned, as well as a lack of respect for the need for conserving the resources of this country.. It is between this Scylla and this Charybdis that anyone extending aid to the countries of post-war Europe must steer a prudent course.

With respect to the problem of administrative efficiency, the question of what is or is not efficacious in the administration of economic life within a given country is a controversial one, even domestically. The elements of these issues are naturally more obscure to outsiders than to the peoples of the respective country. It would be dangerous for any foreign government to draw arbitrary conclusions in these matters and even more dangerous for it to attempt to imbed its own conclusions into international contractual obligations.

In deciding initially whether or not it is even useful to the foreign nation concerned that U.S. aid should be extended, this government cannot refrain from examining the extent to which that nation is united domestically in the determination to make the best of its own opportunities. And from this standpoint, Europeans must recognize that the degree to which realistic national programs of economic betterment exist,

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and the degree to which they have the endorsement and support of the main forces of internal political life, including the main bodies of organized labor, must weigh heavily in the determination whether the extension of aid to those programs would be effective. Where weakness of the internal political structure or lack of qualified personnel render it difficult for a government to devise or implement such a program with its own resources, its readiness to seek and accept assistance from qualified and disinterested outside sources will also have to be an important consideration.

The broader question of national policy with respect to the general system of economy deserves a somewhat similar answer. The people of the United States, whose economic system is so intimately associated with the circumstances of their historic development, will be the first to understand that no country can be a wholly adequate judge of any other country's needs. The freedom of every people to work out its own mode of life is the cornerstone of American political philosophy. In endeavoring to aid European nations, this country must take its neighbors as they are at this stage of their historical and social development and must respect their freely expressed decisions as to the economic and social systems which they hold to be best for themselves.

But there are three points at which this Government must observe caution.

In the first place, there is a difference between on the one hand, economic and social reforms which

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reflect a sincere desire for economic betterment and which hold out reasonable promise of an early achievement of that betterment, and, on the other, programs of a purely political nature which are neglectful or contemptuous of economic values. There are no general criteria by which these categories can be readily distinguished one from the other, and it should not be the part of this Government to constitute itself a judge of these questions. But a program such as that contemplated in this report demands the utmost that every European nation can contribute in productivity at this time, and the American people are bound to be influenced by whether European nations are doing a good job in helping themselves.

Secondly, this Government cannot give direct aid to costly programs of social change carried out by minorities having no plausible claim to represent the will of the majority of the people.

Finally, while the feelings of the majority in any country as to the economic system desirable for that particular country deserve our full respect, we cannot take the same attitude toward an attempt by that country to apply its concepts to others who are not now in a position to determine their own economic and social future. In such cases the principal criterion must be the vigor of the effort to make a full contribution to general European recovery.

C. The Principle of Diminishing Shipment.

While it would thus be clearly inadvisable that this Government should attempt to constitute itself the

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judge of domestic acts and policies of other governments or to make its aid to them conditional on specific undertakings with regard to those acts and policies, it is only right that the receiving governments, in accepting right of disposal over resources which are in short supply for the world at large, should feel and acknowledge an obligation to make the most of these resources, and of all others at their disposal. Thus the arrangements by which aid is granted might properly contain an element of recognition of this proposition. This element should be implicit, rather than explicit. It should be built into the arrangements themselves. It is only just that this should be done, for in any arrangements which envisage U.S. aid over a period of years on a large scale, there is a similar implication of obligation on the people and Government of the United States to make available the supplies specified. And it is clear that this implied obligation should work both ways.

This end should be achieved in an effective and unexceptionable form if

- (a) it could be arranged that a considerable part of the aid from this country, particularly that part which relates to the satisfaction of the interim consumption needs of the receiving countries, would be extended on a declining scale, as suggested in Section III, D above, and
- (b) it were to be clearly understood by the public as well as by the respective governments that further aid of this nature would not be forthcoming after the stipulated termination date of the program and that the responsibility for seeing that it would no longer be required after that time would rest squarely on the receiving government.

This concept would be economically sound if the recovery program contains, as it should, adequate

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provision for the increase of production in Europe throughout the period of its operation and for the expansion of intra-European exchanges.

If this principle were firmly accepted and adhered to, a sense of responsibility to the welfare of its own people would leave the receiving government no choice but to make the most of the aid received, both for production and for consumption needs.

This solution has the additional advantage of making gradual the transition from a stage at which abnormal means of financing imports must play a very large role in the economy of the receiving countries, to a stage where they will play none at all. At the same time, it would ease the process of adjustment from the standpoint of this country.

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VII. SPECIAL CONSIDERATIONS WITH RESPECT TO CERTAIN
INDIVIDUAL COUNTRIES

Arrangements outlined above might serve as a general guide in the case of all European countries willing to participate in the program such as that now under contemplation. Each of these countries naturally has special problems, which will require special consideration. In certain instances, however, the peculiarities of the individual situation are so great that they require special treatment in this report. This applies notably to Great Britain, Germany, and Austria.

a. Great Britain

The relationship of Great Britain to any program of European recovery requiring U.S. aid differs in at least two important and obvious respects from that of the continental countries:

(1) British dependence on foreign trade and her expected trade deficit over the next few years will be larger than that of any other country;

(2) The repercussions on international trade and on international trade policy of a British attempt to meet her trade deficit without external assistance would be very much larger and more serious than would follow a similar attempt by any other country.

Both these factors were recognized in connection with the British loan and influenced the decision of Congress concerning the loan. The principal reasons for the magnitude of the British trade deficit are

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simple and obvious. The dependence of the United Kingdom on imports is greater than that of any other large country; British losses during the war of certain important means of external payment were larger than those of any other country.

In the years immediately before the war the ratio of the value of British imports to the national income was about 20%. The same ratio for the United States was less than 5%. During the war Britain's principal invisible exports, including shipping, banking and insurance services, and her income from foreign investment, suffered a drastic decline. The average yearly trade deficit of the United Kingdom for the period 1935-38 was approximately two billion dollars. This deficit Britain normally succeeded in covering by the invisible exports mentioned above. Since this source has decreased radically, the United Kingdom is faced not with the problem of restoring pre-war exports which is the typical foreign trade problem of the continental countries, but of raising exports to 175% or more of the pre-war level.

All these considerations are well-known, having been raised in connection with the British loan. What is not well-known or widely realized is that the loan is falling far short of accomplishing its purpose. In fact the credits made available to the British Government, according to evidence now available, will be exhausted early in 1948, *IF NOT SOONER*.

The principal reasons for this inadequacy, none of which could be foreseen at the time the loan was made, are as follows:

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(1) The level of wholesale prices in the United States has increased in the neighborhood of 40%. The effect of this has been to reduce the purchasing power of the loan by almost 20%;

(2) Extraordinarily adverse weather conditions have markedly reduced domestic food and feed production in Great Britain for the 1947 crop year;

(3) The lagging economic recovery in Europe has slowed the expansion of British exports;

(4) Dollar commitments larger than expected have been involved in settlements with sterling area countries and in meeting Britain's occupation obligations in Germany.

To the extent that aid to Europe takes the form of commodities, Britain can gain from this aid up to the amount of the specified commodities which she normally obtains from the United States and which are allocated to her under a European program. This would presumably include food, possibly a small amount of coal, shipping services or ships, if they were included in the aid-in-kind. It is impossible to estimate the contribution which these might make to the British problem until the European studies have been completed, and a program recommended.

Should the aid take the form of dollar support of a European clearing arrangement, Britain could be expected to be one of the principal beneficiaries. British exports in 1946 to the other countries participating in the Conference of European Economic Cooperation exceeded by more than \$400,000,000,

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British imports from the same areas. Some of this excess was paid in drawing down sterling in 1946, some in gold, some on credit. If larger European imports from Britain could be financed, though some of the deficit would continue to be paid for in sterling, British earnings of dollars would be increased.

Over and above these types of aid for Europe in general, this Government might well assume the British share of responsibility for supplying the U.S.-U.K. zones of Germany with imports which the German economy cannot finance. This action would relieve the drain on British resources by an amount difficult to calculate but which might initially come to \$360 million per annum.

The question remains whether even these measures will suffice to place Britain on a satisfactory self-supporting basis. No definitive answer can be given to this question. On the one hand, certain favorable factors should be recognized: British exports are continuing to increase (though the rate of increase has not fulfilled expectations); one of the results of an effective European recovery program will undoubtedly be a further substantial increase in British exports; and finally, modernization of plant and equipment, which should and must be one of the primary objectives of the granting of additional aid by the United States, will facilitate export recovery. On the other hand, Britain is extraordinarily dependent on foreign trade in a world

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economy whose volume of foreign trade has been notoriously unstable. Thus there are many uncertainties. And before the measures mentioned above could take effect, several months of continued heavy drain on British resources must ensue.

The attempt to tide Britain over her present difficulties by further assistance along the lines outlined above appears to be the best course that can be followed and one well worth the calculated risk involved. If, however, it does not succeed, then the whole position of Britain with respect to many questions of vital interest to this country and Canada will inevitably have to be a subject of reconsideration. Such reconsideration should take place well in advance of the lapse of the period of any new arrangements that may be arrived at. For this reason, this Government should stand prepared, in the event that these new arrangements for financial assistance do not prove adequate, to join with the Governments of the United Kingdom and of Canada in an examination of their mutual problems from the widest perspective.

B. Germany

The importance of Germany to general European recovery is well-known and requires no statistical illustration. No impartial student of Europe's pre-war economy can fail to appreciate the vital significance which German productivity and German markets have had for the well-being of the continent. And even a superficial glance at Europe's post-war

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economic situation will be sufficient to show that it is idle to talk of any real reduction in the abnormal economic dependence of the leading industrial nations of the continent on outside support as long as this tremendous center of European productivity lies prostrate.

This is not a political judgment but a bitter economic reality. And it would be improper to ask the American people to support measures ostensibly designed to bring about European recovery which did not include the restoration of the ability to contribute to that recovery either of Germany as a whole or at least of those parts of Germany subject to the control of the western powers. This is aside from the fact that the U.S. and U.K. zones of Germany constitute in their present state a burden which the American people cannot be expected to bear much longer and that for this reason measures would now have to be taken in any event to reduce the dependence of the Germans on American tax-payers.

The primary objective of U.S. policy toward Germany is to prevent a recrudescence of German militarism and to see that the Germans never again menace the other peoples of Europe and the world. The draft treaty on disarmament and demilitarization of Germany which has been put forward by this Government in recent meetings of the Council of Foreign Ministers is an emphatic manifestation of this policy. The suggestions set forth below, designed to ensure that Germany contributes to European

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recovery, are regarded as coming entirely within the framework of this security policy. Nothing contained in them is intended to constitute or imply the slightest deviation from the principles of that draft treaty.

This Government has recognized from the start that recovery in the allied countries should be given precedence over recovery in Germany. The present situation in the U.S.-U.K. zones, however, in which industrial production is less than half of pre-war, food supplies are considerably below the minimum requirements for health and efficiency, and foreign trade is only a trickle of its former dimensions, represents a degree of retardation in the recuperation of German production far greater than any reasonable system of priorities would warrant. Between this point and a point where it could be claimed that the interests of German economy were being favored over those of Germany's present neighbors, there lies a wide gap most of which must be filled before general European recovery can become a reality.

The extent to which it may be possible to open the road to economic recovery in Germany as a whole will be determined by the Council of Foreign Ministers in the fall of this year. Meanwhile, there is no point in considering questions involving the Soviet zone.

In present circumstances, the question of Germany's relationship to European recovery can only be examined

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in terms of the Western zones. This question should be made the subject of tri-partite conversations at an early date. These conversations should not look to the conclusion of any formal written agreement. They should be designed to clarify the positions of the respective governments and to develop, if possible, a community of views as to the measures which ought to be taken. It should be left to the respective governments to translate such community of views into action in the areas of Germany subject to their authority.

In entering on such discussions, this Government should give most serious and sympathetic attention to the feelings of the French Government with respect to questions of military and economic security. On the economic plane, however, there can be no avoiding the fact that some further restoration of German production is essential to European recovery.

Among the measures which seem to be indicated if German production is to be increased are the following:

1. There should be a simplification of Allied control and an increase in German responsibility for administration. It is clear that the combination of two military governments in the C.S., U.K. zones operating through central bizonal agencies in economic affairs, and through diverse patterns of zonal agencies in other questions, is not adequate, and cannot be made adequate even with the best of will and efficiency, to bring about the necessary increase of production. It cannot assure the requisite simplicity and economy

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of administrative effort. It involves too great a diffusion of responsibility and authority. It is not designed to encourage that sense of responsibility, confidence and opportunity on the part of the Germans themselves which is indispensable to any real economic progress in that area.

2. Whatever the sources and channels of authority, care should be taken to see that a workable set of economic controls is established. These should include more centralized control over the allocation and use of key commodities, so as to ensure that German resources and U.S. aid will be most effectively used to increase German production and to bring about a real German contribution to the general European recovery program.

3. There should be carried out a financial reform and readjustment of internal prices designed to provide adequate private incentive for production and to make possible a normal development of foreign trade.

4. There must be an early clarification of the question of reparation removals from the western zones. It is relatively unimportant just where, within reasonable limits, the line is drawn for reparation removals. But it is important that this line should be definitely established and made known in the near future.

5. Everything possible should be done to expedite adjudication of denazification questions, and particularly the clearance of cases of minor nazis. This might conceivably

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involve further amnesties, the dimensions of which would have to be determined by the zonal Commanders in the light of the requirement set forth above. In addition to this, the denazification laws in the U.S.-U.I. zones should be so modified as to make it possible for German technical skills to be adequately enlisted in economic life. The employment of persons in capacities commensurate with their professional qualifications can be achieved, on a far wider scale than is presently the case, without giving administrative or political power to persons of pronounced Nazi background.

6. Existing barriers to foreign travel, communication and trade should be removed, except in cases where important considerations of security are involved. The German authorities should be permitted to open and maintain, under allied supervision, commercial agencies in foreign countries.

7. Special arrangements should be made with respect to coal production. In these arrangements, recognition should be given to the need for enlisting a greater spirit of cooperation and responsibility on the part of the Germans themselves. From this standpoint, it is particularly important that provision be made for improvement in living conditions and in labor-management relations in the Ruhr. These arrangements should be worked out in consultation with the other western allies.

8. It should be made possible for the western zones of Germany to be included in any new arrangements

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which may be arrived at for multilateral clearing or any other new facilities for promoting exchanges among the European nations, and in any suitable international projects for increasing production in Europe.

The above list of possible measures is not meant to be exclusive. It is naturally subject to modification or elaboration, particularly in the light of the views of other Western European nations. But it is difficult to see how Germany could be placed in a position to make a really useful contribution to European recovery by any means which do not meet in one way or another the major part of these requirements.

It should be a part of any program of U.S. aid to European recovery that the United States would assume direct responsibility for the financing of shipments from the dollar area to the bizonal area in Germany, with appropriate alterations in administrative arrangements. This would relieve the British exchange situations and would simplify to that extent the overall problem of U.S. aid to European recovery. And it would clarify the anomalous relationship between the U.S. and the U.K. in Germany.

In addition to this, arrangements should be made for the early removal of all displaced persons from the western zones of Germany. This is highly desirable not only on moral and humanitarian grounds, but also to eliminate the present drain on food, housing, and other factors that enter into production. The U.S. Government should be willing to assume a just share of the responsibility for solving this problem. This

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would presumably require legislation along the lines recommended to the Congress by the President in his message of July 7, 1947, concerning the admission of displaced persons to the United States.

C. Austria

In view of the recommendations of this paper with respect to Germany there may be some question as to the relation which it is conceived that Austria, as another occupied country, should bear to United States aid in European recovery.

It is not conceived that the position of Austria, which has a government of its own, need be in any way affected by the fact of military occupation. There is no reason why Austria's possibilities for contributing to European recovery and Austria's own needs should not be studied just as those of any other European country willing to take part in such a program and why the Austrian people should not benefit in full measure from the effects of the program itself. This Government should stand prepared to grant aid to Austria just as to any other European country, in accordance with the principles outlined in this report.

This assumes a readiness on the part of all the occupying powers to fulfill their commitments with respect to Austria.



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VIII. PRIVATE PARTICIPATION IN UNITED STATES AID

The suggestions advanced in this report have necessarily related primarily to assistance which might be rendered to European countries by the United States Government. The problem is obviously one involving action primarily by the Government. However, American private citizens and private business can make a real contribution to the solution of the problem in the following ways:

A. There are many important plants in Europe which are U.S.-owned or in which there is a U.S. interest. U.S. business can help in the European recovery program by repairing war damage to these plants and putting them back into production as quickly as possible. In some cases, the time within which plants can be restored to production can be speeded up by a supply of materials by parent companies in this country. The financial cost involved may not be large and may not, therefore, in the magnitude of the total problem, appear significant. Nevertheless, what counts is getting production going, and providing the proper tools at the right time may be of the greatest significance.

B. As has been pointed out in other parts of this report, a key element of the entire problem is putting existing plants back to work. European countries are in need of a wide variety of industrial equipment and supplies in order to repair war damage and under-maintenance over a long period of time. Most of this

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can come from European sources but, if bottlenecks are to be broken and production is to expand smoothly, Europe will have to import some of the equipment and supplies from the United States.

The demand for such items will in many cases be non-recurrent and, therefore, not as attractive commercially to U.S. manufacturers as the supply of normal domestic and export markets. However, it is quite clear that the willingness of U.S. business to accept and give priority to such orders may be of critical importance in getting European production going. It is certainly preferable that such priorities be established on a voluntary basis than through government control. There would appear to be need for the establishment of machinery, perhaps in the form of industry committees, to provide for consultation between the industries concerned and the United States Government, with a view to insuring maximum coordination of Government and private effort. Such committees might furthermore, in consultation with European governments and private industry, be able to expedite the supply of goods from the United States by dealing with the problems arising from differences in European specifications and other similar technical problems.

C. While the countries most concerned are for the most part advanced ones which have relatively little need (other than that just suggested) for foreign technical, scientific or managerial assistance, there may be instances even in those cases where assistance in connection with a European recovery program could be rendered

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can come from European sources but, if bottlenecks are to be broken and production is to expand smoothly, Europe will have to import some of the equipment and supplies from the United States.

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part in recruiting experts not only from this country but from other member nations. Any instrumentality along the lines suggested above should work closely with the International organizations.

D. American citizens, acting individually and through organizations, have made a most generous and effective contribution to the urgent problems of Europe through gifts of funds, of food, and other goods needed by the Europeans. It is clear that these needs are still continuing, and it is to be expected that our citizens will continue as in the past to accord them a sympathetic reception.



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IX. FURTHER IMPLICATIONS OF UNITED STATES AID TO EUROPE

Measures as far-reaching as those discussed in this report should be carefully examined for their implications and incidental effects in areas of U.S. interest other than those to which they are immediately directed. In this respect the following considerations deserve attention:

A. United States Domestic Economy.

As stated in other sections of this report, careful attention will have to be given to implications of a program of U.S. aid to Europe for the economy of the United States. The eventual conclusions of the studies which the President has directed be conducted on the relation of foreign aid to domestic economy will become a useful guide to ways in which the program to get Europe back on its feet can best be adjusted to our own resources and the needs of a healthy domestic economy.

A European aid program will have implications for United States economy with respect to both cost and benefits.

The costs need no elucidation. They may include not only the financial sacrifice which must be made by the taxpayers of this country but also the restraints in the form of controls on exports, and possibly on consumption, which may have to be established.

As against these costs there should be weighed not only the negative factor of the alternatives but also the positive factor of the possible benefits to U.S. economy. Only if European recovery can be achieved will there be

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possible the development of a world trade situation in which Europe and the U.S. can enjoy normal economic relations on a mutually beneficial basis. Past experience has taught us that the U.S. cannot achieve full prosperity in a world of depression.

To many, the probable costs of a program along the lines envisaged in this report may seem severe. But they would be short-term costs, calculated in years. The possible benefits would be mainly long-term benefits, calculated at least in decades; and no one can doubt that if they are forthcoming at all, they will outweigh the costs many times.

B. The United Nations.

The basic principle underlying the United Nations is that of cooperative international action to deal with common problems. This principle is clearly set forth in the Preamble and Chapter I of the United Nations Charter.

It was in the spirit of this principle that Secretary Marshall suggested on June 5 that the European nations seek to work out, as a basis for possible further U.S. aid, joint proposals designed to foster European recovery. The considerations outlined in the present report are conceived in the same spirit and in full conformity with the purposes and principles of the United Nations Charter.

The interest of the United States in developing the United Nations and its specialized and related agencies as rapidly as possible to the point where they may effectively discharge their responsibilities for promoting and harmonizing international cooperative action in the

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economic field has been repeatedly made clear. The United States favors the maximum utilization, consistent with the requirements of the particular problem at hand, of such instrumentalities as the Economic and Social Council, the Economic Commission for Europe, the Food and Agriculture Organization, the International Bank and the International Monetary Fund.

In the case of European recovery, the urgency of effective international action is such that delay might be fatal. The European nations which have taken the initiative in organizing discussion of common economic problems on an international basis in response to Secretary Marshall's suggestion found it advisable to inaugurate these discussions through a temporary organization rather than through UN bodies. This decision was one which deserves respect in view of the background of circumstances against which it was taken; and events subsequent to the inauguration of the preliminary discussions have tended to confirm the necessity for this approach at this time. This should not, however, constitute a reason for doubt or discouragement as to the long-run usefulness of the UN bodies in this field. On the contrary, if there can be evolved at this time a constructive international approach to the economic problems which are weighing so heavily on the peoples of Europe, this in itself could not fail to bring about conditions within which the UN could operate most effectively. In the meantime, UN organs and related agencies can play many useful roles in relation to specific aspects of European recovery.

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The International Bank, the International Monetary Fund, the Food and Agriculture Organization of the UN, and the projected International Trade Organization may all have significant roles to play in connection with a program for European recovery. In addition, the Economic Commission for Europe, although it is not now in a position to undertake the overall coordinating job, may play an important part in enabling Europe to take full advantage of the aid to be extended by the US. Especially in the case of coal and inland transport, this Commission will have very important duties as the successor to the European Coal Organization and the European Central Inland Transport Organization.

Questions as to when and in what manner UN organs and related agencies should be employed must be considered jointly by the United States and the European nations participating in the program, although the initiative in the early phases rests with the European nations themselves. The United States should be prepared, of course, to join with the European nations at any time in making maximum use of UN machinery wherever circumstances may permit.

As has already been recognized in the Paris meetings, UN agencies should be kept fully informed of all developments.

This Government should also continue to press for the speedy building up of the appropriate UN bodies in order that they may take over their full share of the burden as rapidly as possible.

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C. United States Foreign Policy in General.

Further U.S. aid to Europe would not in itself constitute any basic change in U.S. foreign policy. The international environment in which our foreign policy must operate has always been, and must always be, a changing one. By the same token, our policy can never be static. There must be an unceasing process of adaptation to new conditions. The considerations set forth in this report refer merely to an attempt at such adjustment in one specific instance. There are, and will continue to be, areas outside of Europe which will have need of U.S. cooperation in their development. These needs will have to be faced, like those of Europe, on their merits. But Europe's needs are, in their aggregate, clear in outline, readily susceptible of short-term solution, and of urgent importance to the interests of this country and of world recovery in general. And for that reason, they lend themselves to immediate and special treatment.

There is no reason to believe that the approaches here applied to European problems will find any wide application elsewhere. With one or two exceptions, notably Korea and Japan, where specific U.S. obligations may call for further assistance along patterns similar to those outlined here with respect to Europe, the needs of peoples of other areas differ, for the most part, in certain fundamental respects from those of peoples in Europe.

The problem in Europe is basically one of releasing the capacity for self-help already present in

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certain highly advanced countries. This is a short-term problem.

In the case of many non-European areas, what is needed is not the release of existing energies but the creation of new ones. This is a long-term problem and one which calls for much more in the way of assistance directly from the American people, in the form of technical and managerial guidance and private investment, than of financial assistance by our Government. It is here that there will be particular need of new organizational machinery, such as that mentioned in Section VIII through which the technical skills of the people of this country can be channelled.

It may be argued that a program for Europe might prejudice the availability of supplies for distribution elsewhere, in excess of existing programs. This is a valid point; and the amounts which this country can safely make available to Europe should be carefully related to what is known of demands existing or those which may be raised elsewhere over the same period and which might seem to be of equal urgency and importance. But there is no likelihood that demands of this particular nature will be large.

In general, the extent of the calls on this country is so great in relation to our resources that we could not contemplate assistance to others on any universal basis, even if this were desirable. A beginning would have to be made somewhere, and the best place for a beginning is obviously in Europe.

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By the same token, a program of U.S. aid to Europe should not be viewed as an attempt at a total solution of the world dollar problem. It is not that. Even if Europe be effectively aided, a problem would still remain in the need of other countries for products and services from this country beyond what they are able to give to us and what we are willing to take from them in return. The so-called dollar problem is a reflection of a profound temporary disparity in productive capacity between this country and the world around it. That disparity cannot be removed by anything this country alone can do. But if Europe's exchange situation could be substantially relieved by the combined effort of the Europeans and ourselves, this would have a cumulative effect, and the rest of the world would benefit indirectly from this improvement and its problems would be reduced to dimensions which would make it much easier for everyone to deal with.

The undertaking of a program of aid for Europe would not mean termination or suspension of efforts to find ways of relieving the problem of the dollar exchange shortage elsewhere. It would merely mean that this Government had agreed to join others in tackling the core of this problem in an organized and intensive manner.

If the considerations outlined in this report have implications for U.S. policy in areas other than Europe, these implications do not lie, for the most part, in parallels between action in Europe and action elsewhere, but rather in the importance of Europe

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itself to the regeneration of confidence everywhere in the possibility of progress and peaceful development in international life. The older cultural centers of Europe are the meteorological centers in which much of the climate of international life is produced and from which it proceeds. Until hope has been restored in Europe, there can be no real revival of confidence and security in the affairs of the world at large.

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7. CONCLUSION.

As was stated in the note at the beginning of this report, the considerations set forth herein are put forward tentatively. They constitute an attempt to work out an integrated pattern of concepts to an approach of a single problem. They are advanced in the hope that they will prove useful as guidance to those in this Government who may later be called upon to deal with the problem at issue. The European governments with which the question of United States aid will eventually be discussed will have valuable thoughts and suggestions to which this Government should give most careful attention.

In general, there is much that cannot be foreseen from the present perspective and much that is debatable in detail. But it is none too soon to begin the charting of a course of U.S. policy with relation to European recovery which would do justice both to the immediate national interests of this country and to the abiding concern which the people of the United States feel for the continued vitality and prosperity of the European community.

If this paper has accomplished this task, it will have served its purpose.

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July 23, 1948

MEMORANDUM FOR THE PRESIDENT

The following notes contain a summary of the discussion at the 16th meeting of the National Security Council.

1. THE SITUATION IN GERMANY

At the President's request, General Clay gave the following report on the situation in Germany:

Abandonment of Berlin would have a disastrous effect upon our plans for Western Germany. It would also slow down European recovery, the success of which depends upon more production, particularly from Western Germany. The Germans in general are more concerned than the Allies about the possibility of our leaving Berlin. The British and French are firm in their determination to remain. The British have made available substantial resources for our effort in Berlin. The French have not been very helpful in this regard, partially because of their lack of resources. We should be prepared to go to any lengths to find a peaceful solution to the situation but should be determined to remain in Berlin.

The attitude of the German people is in some respects unbelievable. The party leaders in Berlin who make up the City Magistrate with headquarters in the Soviet zone have absolutely refused to accept Soviet control. Berlin people are determined to stand firm even if it requires undergoing additional hardships. The City Magistrate continues to function although the Soviet's next move may be to throw this body out and set up a Soviet-controlled government. In this eventuality the City Magistrate will probably move to the Western zone. The situation in Berlin is beyond the powers of the authorities in Berlin to negotiate unless it is referred back there by the respective governments. Every effort to reach agreement on currency has been made without success. Finally the Western authorities called on Sokolovsky, at which point it became clear that currency was not the real issue but rather the rehabilitation of Germany.

The air lift has been averaging about 2400 to 2500 tons per day, which is more than

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enough to handle food requirements but is inadequate to include essential need for coal. The minimum required to sustain Berlin without extreme hardship is estimated to be 4500 tons per day. 3500 tons per day might suffice now but additional tonnage will be required during the winter. The Soviet offer to supply Berlin with food is probably a propaganda effort in an attempt to regain prestige.

The practicability and capability to use armed convoys has been carefully considered. The Soviets have never questioned our right to move troops in and out of Berlin. However, use of armed convoys obviously could create an act which might lead to war. It is, therefore, desirable not to use them until all other ways have been tried and failed.

Dependents are being moved out slowly. It is important that some remain for the psychological effect of their presence. As long as we are still negotiating, some dependents should remain but we should be prepared to move them out hurriedly. We should also evacuate some of the outstanding Germans.

It is feared that the Soviets will agree to negotiate only on the basis that we stop our plans for Western Germany while the negotiations are going on. The U.S. and British authorities believe that this would be disastrous but the French might be willing to abandon our plans for Western Germany. The German Minister Presidents in the Western zones were lukewarm to these plans but during the last week they have changed and now are eager to assist carrying them out. Since the fall of the French Government, the French Zonal Authorities have had instructions that they should in no way interfere with the carrying out of our plans. It is believed that the Minister Presidents will accept the plans and are prepared to move strongly ahead.

The British and French agree that if the Berlin situation is not squarely met now, we will have to meet it under more unfavorable circumstances. General Clay believes that an oral presentation to Stalin is by far the best

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approach yet. The French have some fear of this since they have always considered that step as a last resort.

The air lift has increased our prestige immeasurably. It has been impressive and efficient and has thrown the Russian timetable off. Two months ago the Russians were cocky and arrogant. Lately they have been polite and have gone out of their way to avoid incidents.

The present air lift operation involves 52 C-54's and 80 C-47's. Two round trips are made each day involving 250 landings. Additional C-54's would enable us to increase our tonnage 1000 per day which, together with the British, might then reach 4500 tons. The British are already at approximately their maximum capacity. Maintenance is based on a 65% availability. 75 additional C-54's would enable the U.S. to reach a daily tonnage of 3500.

GENERAL VANDENBERG pointed out that any additional planes for the air lift would disrupt our Military Air Transport Service (MATS). A full air force effort would require at least one more airdrome in Berlin and would involve almost all MATS' facilities. A depot would also have to be set up in England with a sub-depot in Germany and a build-up of maintenance personnel. If three airdromes were available, under the worst conditions 3620 tons could be carried on bad days and 8160 on the best days with an average somewhere between. It is hardly economical to add 50 more planes to the air lift because supplying them would require most of the remaining facilities of MATS. If we decide that this operation is going on for some time, the Air Force would prefer that we go in wholeheartedly. If we do, Berlin can be supplied. The decision must be made as soon as possible before October 15 because it will be necessary to bring in engineer supplies in order to build the new airfield. The sooner the decision is known the better.

In answer to Secretary Marshall, GENERAL VANDENBERG said that the maximum air lift would involve using planes which are intended for emergency use, many of which might be destroyed in case of hostilities. This would adversely affect our capabilities to wage strategic warfare. If the majority of our planes are caught and destroyed, this would delay our ability to supply our forces and hold outlying bases. It might delay our strategic air effort for possibly months before it could get in full operation. Meanwhile we would have to use sea transportation. We might commandeer a majority of the domestic air transports, although many of these would have to be used for the transcontinental air lift. The commercial fleet, however, is not adequate to do both jobs.

Our ability to wage strategic warfare would be definitely delayed for at least a month. Our ability to reinforce outlying garrisons, particularly Iceland, would also be adversely affected.

GENERAL VANDENBERG pointed out that the air corridors in Germany belong to the Russians as well as to us. The Soviets have three airdromes on the corridor and if we used a maximum air lift it might enable the Russians to claim they cannot use their airdromes.

GENERAL CLAY said that the Russians had agreed not to use mass formations from those airdromes.

In answer to Secretary Marshall, GENERAL CLAY said that the Soviets claim that the railroad bridge across the Elbe is out. Air photos, however, show that there is nothing basically wrong with the bridge. The Soviets have cut out a number of miles of railroad track which might be repaired in 48 hours. Barges cannot get through since the locks are under Soviet control. General Clay said that not-too-reliable reports indicate that the Soviets might trade coal for electric power from the Western zones. He pointed out that the British and French have already tried to use unarmed convoys which the Russians have turned back. General Clay believed that the initial Soviet reaction to armed convoys would be to set up road blocks which engineers, however, could quickly clear. The final Russian effort to stop armed convoys might, of course, be armed attack. The only major bridge on the route to Berlin by road is at the Elbe, and we have sufficient pontoons to erect a new one. We could also provide detours around obstructions at other points.

In answer to Mr. Lovett, GENERAL CLAY said that Soviet threats to interfere with the air lift have so far been mainly propaganda. There has been no interference with the U.S. corridor, and in the British corridor Yak fighters appeared but got out of the way when the British went right on with their planes. General Clay does not believe that the Russians will interfere with our air lift unless they mean to go to war.

In answer to the President, GENERAL CLAY said that he did not think the Russians do mean to go to war. There were more signs that they might in March than at present when they are operating with great care. There have been no troop movements or other such signs to indicate preparations for war. General Clay estimated that the Soviets have about 360,000 ground and air troops in Germany, compared with a Western force of about 210,000.

In answer to Secretary Royall, GENERAL CLAY thought that the British and French would support the use of armed convoys only after all diplomatic processes have been exhausted. Then he felt we could be sure of British support, but he was not so sure the French would support us. However, the more time that elapses before the use of an armed convoy, the more critical a move it becomes.

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In answer to Secretary Marshall, GENERAL CLAY said that if an armed convoy got through it would then be brought back and the next convoy would be less fully armed. Finally, however, we might have to put troops along the corridor.

In answer to Secretary Royall, GENERAL CLAY said that the currency situation is not working out well. We have accepted the legality of the Soviet currency but they have not accepted ours. Their currency, therefore, is driving ours out of circulation and we can only retaliate by printing more, which devalues our currency. We may eventually have to declare the Soviet currency illegal, but that should only be taken as a final step after it has become clear that no compromise is possible.

In answer to Secretary Royall, GENERAL CLAY estimated that the Western European Nations have about 600,000 troops outside of Germany which could cooperate with us. These, however, are armed only with rifles or equipment in bad shape. The British are organized into battalions and have no divisional organizations. There is a Belgian division with British equipment, which is probably the best of the lot. The French have divisional organizations but are terribly equipped. Their armoured division has only worn out U.S. tank destroyers and German panzer tanks, which makes it only 20% operational.

In answer to Secretary Royall, GENERAL CLAY expressed the belief that if we move out of Berlin we have lost everything we are fighting for.

THE PRESIDENT said that this was his opinion also.

GENERAL CLAY pointed out that the Soviets have left themselves a way out by using the excuse of technical difficulties. He thought, however, that the Allies must give way on something that can be used by the Russians for domestic propaganda purposes.

In answer to Secretary Royall, GENERAL VANDENBERG said that without an additional airdrome the air lift cannot be maintained at more than 900 to 1000 tons per day.

GENERAL CLAY said that the site had already been selected and there is plenty of German manpower to construct the field.

GENERAL VANDENBERG pointed out that this additional field will probably be necessary by October 15 and must, therefore, be started now.

In answer to Secretary Marshall, GENERAL CLAY said that morale in the Ruhr is the best ever, the food situation is all right, and coal production is at a sustained level. Steel output last month was the highest yet. Everything in the Ruhr situation is good except the possibility of Communist-inspired labor trouble. The

loss of prestige by the Communists over Berlin, however, has brought this trouble to a standstill. Ruhr steel is used first for the coal mines, second for transportation, and third for electric power and power equipment. This takes the majority of the output and the remainder is exported.

In answer to Secretary Marshall, GENERAL CLAY said that the French attitude on the economic measures in the Ruhr is all right and they do not differ with us. They have not, however, given up their views concerning the control of the Ruhr, but General Clay does not believe that they will be sustained because the Germans have shown that they can manage the industries themselves.

The President and Admiral Leahy retired from the meeting at this point.

SECRETARY MARSHALL said that there were two phases of preparation for the increase in the air lift. First was movement of personnel and equipment from the U.S.; second was the additional airfield. He asked if the construction of the field would absorb too many resources in Germany.

GENERAL CLAY said it would not. The only cut in the air lift would be for the paving equipment, which would require a full day's air lift. Otherwise construction could be started right away with material available locally.

SECRETARY MARSHALL thought there would be a good psychological effect if we proceeded with the construction of the airfield, as indicating that we are in earnest about staying in Berlin. He felt that the additional material should not be shipped in prior to the Joint Chiefs of Staff's consideration.

THE NATIONAL SECURITY COUNCIL:

Agreed that construction work on a new airfield in Berlin should proceed with materials available locally, pending a future decision as to the desirability of shipping in the additional materials required for completion.

GENERAL CLAY pointed out that the additional C-54's would increase the individual load now carried by C-47's from 2 to 10 tons.

GENERAL VANDENBERG said that these C-54's would have to come off of routes to other theatres but this would not be vital since commercial routes were being extended. He said that with proper depots in England the air lift could be maintained with 75% of the planes' operational.

SECRETARY SULLIVAN thought that this increase was a military decision for the Joint Chiefs of Staff.

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GENERAL BRADLEY said that it was the consensus of the Joint Chiefs of Staff that they could go that far.

THE NATIONAL SECURITY COUNCIL:

Agreed with General Clay's recommendation that approximately 75 additional C-54's be made available for the air lift to Berlin, pending future decision on additional planes for a larger effort.

NOTE: (Secretary Sullivan's agreement was conditional on the JCS concurrence.)

SECRETARY ROYALL said that he was inclined to continue General Clay's policy on dependents, keeping them there but having them ready for evacuation.

SECRETARY MARSHALL was concerned about the effect upon the Germans if our dependents were evacuated. He thought we could retain a minimum of 800 to 1000.

GENERAL CLAY said that he intended to reduce the number of dependents to 1000 by the end of August, which he could then get out on 4 hours notice.

THE NATIONAL SECURITY COUNCIL:

Concurred with General Clay's current plans to reduce the number of dependents in Berlin to approximately 1000 by the end of August, and agreed that approximately 800 to 1000 dependents could remain in Berlin ready for immediate evacuation by General Clay when and if he deems it necessary.

SECRETARY MARSHALL suggested that Mr. Lovett explain our next diplomatic moves. Secretary Marshall said that the major consideration under study by State is to lay the ground for any eventual action we may have to take. We must be extremely careful to be sure that we have the warm support of the Western European powers rather than to create a feeling by them that we have gotten them into trouble. Our actions must be regulated by their probable reactions. The same thing applies as regards the probable reactions of the U.S. people. This latter problem is extremely complicated by an election year. We must be sure that we come before the United Nations with the cleanest possible case so that we will get majority approval here and abroad for our future course.

MR. LOVETT stated that we must be most aware of the following points. First, we must have an absolute determination not to be kicked out of Berlin. Secondly, we must be equally resolute that we have exhausted all peaceful means of settlement. Third, we must handle ourselves so as to avoid hysteria.

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Mr. Lovett said that the note situation was difficult because of the personalities involved. Our first note maintained that we had an established right, attempted to smoke out any threats to that right, and finally left the way open for future actions. We are now entering the second phase for which we must have an orderly process. Mr. Lovett felt that the British want to make it difficult for the Soviets to back out, but beyond that have no program. We cannot operate on that basis.

Mr. Lovett said that an oral presentation to Stalin appeared to be the best approach. Mr. Bevin, however, is opposed to this and proposes to send another note. We think we should have an oral presentation first, then send a note refuting all the Soviet claims and follow this with reference to the United Nations.

Mr. Lovett said that we are now in the process of arguing with Mr. Bevin that he is missing an opportunity to find out orally what the Russians really mean to do. Mr. Bevin's note smells of appeasement and ends with an agreement to talk about world peace. Mr. Lovett believes that any show of weakness now will be absolutely fatal.

GENERAL CLAY agreed and pointed out that the British commander in Germany had suggested an oral presentation to Stalin.

MR. DRAPER said that Mr. Harriman felt that we should approach Stalin.

MR. LOVETT explained our time schedule, working back from a deadline of the first of October. This means that by the 15th of September we must decide whether we are prepared to go ahead regardless of the consequences. By the first of September we must, therefore, convene a special session of the UN General Assembly. To do this we must refer the matter up to the UN Security Council during the first week in August. Therefore, by the first of August we must have completed our initial feeling out maneuvers.

In answer to Mr. Symington, MR. LOVETT felt that a decision to increase the air lift to the maximum should be a later development. In two weeks we should know the situation better and we can then decide whether to throw in our whole air lift. He said that we had decided against sending a special emissary to Stalin since it might be read as weakness on our part.

SECRETARY FORRESTAL commented that if the British and French will not go along with us we will have to review the whole U.S. position.

MR. LOVETT agreed, but stated that the trouble is not with the British but with Mr. Bevin.

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SECRETARY FORRESTAL pointed out that the Military Establishment would be facing a question of supplementary appropriations.

SECRETARY MARSHALL said that he was fearful that if this question were submitted to the special session of Congress, the reverberations might cause us to lose our support in Western Europe.

THE NATIONAL SECURITY COUNCIL:

Noted and discussed Mr. Lovett's remarks concerning diplomatic moves and their timing with respect to the Berlin situation.

Agreed that the B-29 bombers based in the British Isles should not conduct mass maneuvers over Germany or the Mediterranean area but could engage in normal training flights over the Mediterranean area and in normal rotation of planes to replace those based in Germany.

Agreed that General Clay might hold a press conference.

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July 16, 1948

MEMORANDUM FOR THE PRESIDENT

The following notes contain a brief summary of the discussion at the 15th meeting of the National Security Council.

1. DISPATCH OF B-29 BOMBERS TO THE BRITISH ISLES

SECRETARY MARSHALL quoted a message from Mr. Bevin, stating that he felt that the Soviet reply did not in any way lessen the desirability of sending the B-29's. In fact, Mr. Bevin felt this action all the more important so that it could be made clear that the recent exchange of notes was not the occasion for their dispatch. Mr. Bevin felt that we should proceed immediately with the steps necessary to build up our position regarding Berlin while determining the lines by which we should answer the Soviet note. Mr. Bevin felt that one of the most important of these steps would be the arrival of the B-29's for the meeting of the consultative body on the Brussels pact, which was to be held on Monday at the Hague. Mr. Bevin suggested that the B-29 flight be described as an ordinary training mission.

SECRETARIES MARSHALL, FORRESTAL and ROYALL agreed that they did not understand Mr. Bevin's statement that we should make it clear that the recent exchange of notes was not the occasion for the dispatch of the B-29's.

MR. LOVETT said that the original plans called for basing one group in Germany, one in France, and one in England. State and Army considered that it was doubtful whether we should base any planes in France. Present plans, therefore, called for two groups in England, and one in Germany. Mr. Lovett explained that the planes had been alerted previously to July 6, which was the date of our note to Russia. They had not proceeded, however, because Mr. Bevin was reluctant to have them come in at that time. We had then sent a note to Mr. Bevin saying that we felt the planes should proceed before the Soviet answer was received. Mr. Bevin's answer had not been received until now, which may explain the apparent contradiction since he was in part answering our last message.

SECRETARY MARSHALL pointed out that one advantage of sending the planes was that it would be a further indication of our firmness. He did not feel this was a very great advantage, however, since our position has already been made very clear. A more important advantage was that it would tend to stimulate French, particularly, and British determination and might offset any tendency toward weakness or appeasement. The main disadvantage would be the

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NRC Ltr. 4-13-82

By NLT-HL NARS, Date 6-21-82

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possible reaction of the American people. The State Department felt that we must pave the way for any possible use of armed convoys by showing that we have exhausted all other ways of solving the problem. Secretary Marshall was sure that the Soviets would play up in their propaganda that they have taken no military steps while we have taken one after another. He is concerned that the American people should not think that we are trying to put something over on them. He was impressed by some remarks of former Speaker Rayburn who thought that we must be extraordinarily careful to keep in mind that the U.S. people have fear of war in the forefront of their minds. Mr. Rayburn believed that people were sold on the need for strength to prevent war, but we must also realize their strong fear of war. Secretary Marshall, therefore, felt that we must not adopt too militant a course. This disadvantage must be weighed carefully against the need for bucking up France. Secretary Marshall thought that the excuse of training flights would probably produce a cynical reaction from the American people.

In answer to Mr. Lovett, SECRETARY ROYALL said that General Clay's position had not changed as to the desirability of sending the B-29's.

MR. LOVETT said that Mr. Revin had specifically referred to the need for building up our air lift in view of the Soviet note.

SECRETARY FORRESTAL said that he would analyze the reaction of the American people a little differently than that of Secretary Marshall. Secretary Forrestal felt that the country was not aware of how serious the situation really is. He felt that some weight should be assigned to the effect on the other side if the people felt that the Government was not treating this matter as seriously as it warrants. He said that we are facing an October 15 deadline when we will have to face up to the hard decision whether to use armed convoys. If we mean to do that, we had better give some earlier manifestation of the need for such convoys.

SECRETARY ROYALL agreed that if we have decided to stay in Berlin, we must start conditioning the American people. Secretary Royall was concerned since the U.S. is committed to support of the United Nations and we appear to be preparing to take up the Berlin situation with the UN. If this action is coupled with sending the B-29's; Secretary Royall felt that this would not put us in a good light. Secretary Royall granted the advantage of strengthening the will of the French and British but felt that they had already been firmly committed by their notes to the Russians.

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MR. LOVETT thought it would be a mistake to let the question of the UN cloud the issue of sending the B-29's. He pointed out that we and others have never hesitated to send our forces in where our vital interests are concerned. He thought it would be one thing if we pour troops into Germany, but he pointed out that in the present case we would be basing our planes in a friendly country at the request of that government. He also noted that the excuse of training flights is a normal diplomatic convention.

SECRETARY ROYALL thought this excuse would convict us of insincerity.

MR. LOVETT felt that we should leave the indications of the routine character of this operation up to the British. He pointed out that one of Mr. Bevin's conditions was that it should not appear that we are using England as a base for aggression in time of peace. This action, however, would not prohibit our subsequently going to the UN.

SECRETARY ROYALL pointed out that General Clay suggested that the B-29's should be in England when we started using convoys. Secretary Royall thought we might send the B-29's only when we have reached the convoy stage.

MR. WHITNEY noted some pertinent facts concerning our air lift potentialities into Berlin. At the present time the U.S. Air Force is moving about 1000 tons per day and the British about 750. The maximum lift we could get by adding 180 C-54's and 105 C-47's, which would be a complete use of everything we have, could only reach 3000 tons per day. It is estimated that the British might reach 1000 tons per day. To do this we must find new airdromes and ship one or two repair depots. The airdrome situation is critical since Tempelhof is breaking up under its present load. A survey is being made of the Berlin area, but we will probably require additional construction of airfields. The maintenance of the present 53 C-54's and 105 C-47's is deteriorating rapidly since we have no facilities there to support proper maintenance. In other words, to reach our maximum air lift will involve our entire transport reserve and will require the dispatch of a great many troops. We will then have everything over there and it would be a serious question as to how many would be caught on the ground and destroyed if hostilities broke out. Even the maximum air lift of 4000 tons per day is short of the estimate minimum requirement of 5300 which may have to be raised to 8000.

SECRETARY ROYALL noted that General Clay has stated that 3000 tons per day will meet all requirements.

MR. LOVETT questioned whether the 5300 figure did not anticipate some stock piles.

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MR. ANDREWS felt certain that this was an average figure, assuming ideal flying conditions.

MR. WHITNEY said that the Air Staff was firmly convinced that the air operation is doomed to failure.

MR. ANDREWS agreed with Mr. Whitney. He also agreed with Secretary Forrestal that the U.S. people should be made ready for eventualities and that the move of the B-29's would be valuable as education.

MR. WHITNEY said that he had recommended to Secretary Forrestal that the Air Force favored sending the B-29's. Mr. Whitney added two minor reasons for sending them. First, it would grease the wheels for this kind of operation with the British by giving them experience in handling our planes. Second, we now have permission but if the situation deteriorates we may no longer have it.

MR. LOVETT agreed that the best information available indicated that air lift was an unsatisfactory expedient. He felt that it was obvious that the Soviets know that flying weather will be too bad for this operation to continue beyond October. He thought that we should clearly recognize that the air lift is a temporary expedient, while opinion seems to be firming up for the use of armed convoys. He felt this would be an obvious aggressive act when these convoys entered the Soviet zone unless it is previously made clear that we are doing this by right before some such body as the UN. An added complication is a sentence in the Soviet note which poses a serious problem. After explaining that their hearts are bleeding for the population of Berlin, the Soviets state that they will be willing to assure by their own means adequate supplies for this population. Mr. Lovett noted that the Soviets anticipate that their crops will come in in August. He is convinced that the Soviets could not feed Berlin until August.

Mr. Lovett also pointed out that the Soviet note was amazing in that it recognized our right to be in Berlin, but then stated that we had forfeited that right. He thought the Soviets made it clear that they intend to maintain their position in Berlin.

SECRETARY ROYALL expressed concern at the confused figures on air lift. He noted that General Lemay said that he could sustain the operation indefinitely, subject only to weather. Secretary Royall agreed that the air lift could not carry through the winter. He did not, however, feel that we need new construction of airfields. Secretary Royall had no doubt that we could continue the operation until October.

Secretary Royall, therefore, thought that we should apply immediately for a prompt remedy before the UN. We should ask for

hasty UN action because we cannot permit Berlin to starve and we do not want to take other measures until the UN has considered the question. If the UN can't act, we should then take further steps. If the UN votes against us, we should get out of Berlin.

Secretary Royall thought that we should first increase the air lift as necessary to carry into the latter part of October, thus avoiding the dilemma of using convoys until then. Second, his judgment was against sending the B-29's.

SECRETARY MARSHALL noted the reactions of the American people as indicated by recent public opinion polls. They feel we should stand firm in Berlin. They are almost unanimously in favor of our note to the Russians. They believe we should not negotiate on the German problem until the blockade is lifted. Secretary Marshall did not believe, however, that we could assume from this that the people really understand the seriousness of the situation. He noted that the American people felt that the U.S. intends to refer the matter to the UN and that they approve of this step but are not hopeful of its results. Only 7% believe we should pull out of Berlin, 85% say to stay, and 8% have no opinion. On our dealings with the Soviets, 10% think we should compromise, 19% feel our present position is about right, 61% think we should be firmer, and 10% have no opinion. This poll was taken before the Smith-Molotov exchange and there is no basis for judging what change that exchange might have made.

MR. HILL agreed with Mr. Forrestal concerning public opinion. Mr. Hill said that he had talked with many business men in his recruiting and he does not believe that they have any idea of the gravity of the situation, nor do they realize that the air lift is an impossible operation. They think that we are playing a poker game and the Soviets will eventually back up and it will be all over. Mr. Hill believes that the B-29 move is undoubtedly a good one. He wondered whether it would be possible to tie this in with the increase in air lift.

SECRETARY MARSHALL thought that such a tie-in would ruin any educational effect that the move might have.

MR. ANDREWS thought that the common man was well aware of the seriousness of the situation.

MR. WHITNEY said that we can continue to carry 2000 tons per day, including the British, probably until October 15. If we add to that lift, however, we will be dipping into planes which are required in emergency war plans. He therefore felt that the overriding decision should be political. From the military viewpoint alone he would be against dipping into our reserve stocks.

SECRETARY MARSHALL, as an individual rather than as Secretary of State, said that he was concerned about the hazard to our planes in a concentrated area where at least 25% might be destroyed at the first blow.

MR. WHITNEY was against increasing the air lift because it cuts into our emergency stocks and subjects our planes to the danger of destruction. Also, our planes would deteriorate rapidly unless we sent a repair depot.

MR. LOVETT said that he assumed the depot would be set up in England where it would not be subject to immediate destruction.

SECRETARY ROYALL said that the figures were so confusing that he could express no opinion regarding an increase in the air life. He believed, however, that if this was required for the next three months it would be preferable to the use of armed convoys. He suggested that we should first clear up the contradictory figures and, second, explore the feasibility of using armed convoys, which he considered to be a last resort. Before doing that he would not only place the matter before the UN but would also be willing to risk our planes.

SECRETARY MARSHALL suggested that the Council reserve decision on an increase in the air lift but asked for a definite vote on the question of sending B-29's.

SECRETARY FORRESTAL, MR. HILL, MR. WHITNEY and MR. ANDREWS were in favor of sending the B-29's.

SECRETARY ROYALL said that it was a close decision and he did not feel strongly either way but his guess would be against sending them.

SECRETARY MARSHALL proposed, without objection, that the record show that the Council, subject to Secretary Royall's reservations, advocated the dispatch of the B-29's.

SECRETARY ROYALL felt that if we get out of Berlin, we should give up ERP, reduce our armed forces, and go back to Isolationism.

MR. LOVETT felt this was too strong a statement, but agreed that we would have to face up to a serious problem in Trieste, Italy and France. He asked if it would not be possible to rotate new planes into Germany to replace those that were wearing out. Even then, however, he agreed that air lift would not be adequate and even questioned whether the problem would be solved by armed convoys.

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SECRETARY ROYALL said that General Clay thought that convoys would be a solution.

SECRETARY MARSHALL thought that Mr. Lovett's idea of replacing planes in Germany and sending them back to England for maintenance would rule out the danger of undue destruction. The planes in England would also be available for flight back to the U.S. in case of hostilities. Secretary Marshall said he and Secretary Forrestal would see the President immediately after the meeting in an effort to obtain his approval to send the B-29's.

SECRETARY FORRESTAL suggested, and Secretary Marshall agreed, that any public statement on this movement should be carefully weighed between State and the Military Establishment.

SECRETARY ROYALL suggested that any statement make it clear that this movement has been under consideration for some time prior to the receipt of the Soviet note.

MR. WHITNEY said that the two groups could arrive at their destination 48 hours after orders were issued and that they would be prepared to maintain themselves for 40 to 60 days.

MR. LOVETT noted that this would require issuing the orders this afternoon if we are to meet the schedule suggested by Mr. Bevin.

THE NATIONAL SECURITY COUNCIL:

- a. Agreed, subject to reservations by the Secretary of the Army, that the Secretary of State and the Secretary of Defense should recommend to the President that the United States proceed with the dispatch of B-29 bombers to the British Isles.
- b. Agreed that a public statement concerning this movement would be carefully coordinated between the Department of State and the National Military Establishment.
- c. Agreed to reserve decision on increasing the air lift to Berlin.

2. PROPOSAL TO SELL SURPLUS SMALL ARMS ON GUAM TO THE NETHERLANDS

SECRETARY MARSHALL said that he had been informed that the Marines had declared a small quantity of small arms in Guam as surplus. The Netherlands desired to purchase this equipment for the Dutch Marines in Holland. Secretary Marshall agreed that this was consistent with the approved policy in NSC 14/1 of giving priority

SECRETARY FORRESTAL expressed the belief that we should try to postpone the decision as long as possible.

THE NATIONAL SECURITY COUNCIL:

- a. Reviewed and discussed the situation with respect to the disposition of the former Italian colonies in Africa.
- b. Deferred further action on this subject pending the results of the negotiations.

3. U.S. MILITARY COURSES OF ACTION WITH RESPECT TO THE SITUATION IN BERLIN
(NSC 24)

THE NATIONAL SECURITY COUNCIL:

Noted the views of the Joint Chiefs of Staff on this subject, contained in NSC 24.

4. APPRAISAL OF THE DEGREE AND CHARACTER OF MILITARY PREPAREDNESS REQUIRED BY THE WORLD SITUATION
(NSC 20)

MR. SOUERS proposed, and the Council adopted, a procedure for handling this problem.

SECRETARY FORRESTAL noted that the Joint Chiefs of Staff were very anxious to have a statement of objectives which extends beyond the point of war with the USSR. The JCS need to know what we propose to do with Russia after we may have defeated her. In other words, what are our war objectives? Secretary Forrestal felt that if we had had such objectives in the last war we would be in better shape today. He said that another matter which must be taken into consideration is the amount of military assistance which will be given to Western Europe.

THE NATIONAL SECURITY COUNCIL:

- a. Agreed that the Department of State will prepare for Council consideration the following studies:
 - (1) A current estimate of the existing or foreseeable threats to our national security, with particular reference to the USSR, including the probable nature and timing of these threats.

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- (2) A statement of the objectives which this nation should pursue in the foreseeable future in order to safeguard its national security and to counter the existing or anticipated threats to that security.

- b. Directed the NSC Staff to prepare the following study after completion of the above studies:

A program of specific measures which, in the light of our existing commitments and capabilities, should and can be planned at this time to promote the achievement of our current national security objectives, with particular reference to those measures which should be included in our planning for the fiscal year 1950.

5. POSSIBLE COURSES OF ACTION FOR THE U.S. WITH RESPECT TO THE CRITICAL SITUATION IN CHINA
(NSC 22)

THE NATIONAL SECURITY COUNCIL:

Referred NSC 22 and the comments by the Joint Chiefs of Staff thereon to the NSC Staff for the preparation of a report to the Council in conjunction with the Staff's study of NSC 11, "U.S. Armed Forces at Tsingtao".

NOTE: The comments by the Joint Chiefs of Staff on NSC 22 subsequently circulated as NSC 22/1.

6. DOMESTIC ACTIVITIES AND FOREIGN RELATIONS
(NSC 23)

THE NATIONAL SECURITY COUNCIL:

Agreed to recommend that the President refer to this matter at a Cabinet meeting substantially along the lines contained in NSC 23/1.

NOTE: NSC 23/1 subsequently submitted to the President, who accepted the Council's recommendation.

7. NSC STATUS OF PROJECTS

THE NATIONAL SECURITY COUNCIL:

Noted the Status of Projects as of August 2, 1948.

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bulletin



The Requirements of Reconstruction

BY UNDER SECRETARY ACHESON¹

You who live and work in this rich agricultural region, whose daily lives are concerned with the growth and marketing of cotton and corn and other agricultural products, must derive a certain satisfaction from the fact that the greatest affairs of state never get very far from the soil.

When Secretary of State Marshall returned from the recent meeting of the Council of Foreign Ministers in Moscow he did not talk to us about ideologies or armies. He talked about food and fuel and their relation to industrial production, and the relation of industrial production to the organization of Europe, and the relation of the organization of Europe to the peace of the world.

The devastation of war has brought us back to elements, to the point where we see clearly how short is the distance from food and fuel either to peace or to anarchy.

Here are some of the basic facts of life with which we are primarily concerned today in the conduct of foreign relations:

The first is that most of the countries of Europe and Asia are today in a state of physical destruction or economic dislocation, or both. Planned, scientific destruction of the enemy's resources carried out by both sides during the war has left factories destroyed, fields impoverished and without fertilizer or machinery to get them back in shape, transportation systems wrecked, populations scattered and on the borderline of starvation, and long-established business and trading connections disrupted.

Another grim fact of international life is that two of the greatest workshops of Europe and Asia—Germany and Japan—upon whose production Europe and Asia were to an important degree dependent before the war, have hardly been able even to begin the process of reconstruction because of the lack of a peace settlement. As we have seen, recent efforts at Moscow to make progress towards a settlement for Germany and Austria have ended with little accomplishment. Meanwhile, political instability in some degree retards revival in nearly every country of Europe and Asia.

A third factor is that unforeseen disasters—what the lawyers call "acts of God"—have occurred to the crops of Europe. For two successive years unusually severe droughts have cut down food production. And during the past winter storms and floods and excessive cold unprecedented in recent years have swept northern Europe and England with enormous damage to agricultural and fuel production. These disasters have slowed down the already slow pace of reconstruction, have impeded recovery of exports, and have obliged many countries to draw down irreplaceable reserves of gold and foreign exchange, which had been earmarked for the importation of reconstruction materials, for the purchase of food and fuel for subsistence.

The accumulation of these grim developments has produced a disparity between production in the United States and production in the rest of the world that is staggering in its proportions. The United States has been spared physical destruction during the war. Moreover, we have been favored with unusually bountiful agricultural crops in recent years. Production in this country is today running at the annual rate of 210 billion dollars.

Responding to this highly abnormal relationship between production in the United States and production in the rest of the world, the United States Government has already authorized and is carrying out an extensive program of relief and reconstruction. We have contributed nearly 3 billion dollars to foreign relief. We have taken the lead in the organization of the International Bank for Reconstruction and Development and the International Monetary Fund, and have subscribed to these two institutions to the extent of almost 6 billion dollars. We have increased the capacity of the Export-Import Bank to make loans abroad by almost 3 billion dollars. We have made a direct loan of 3¾ billion dollars to Great Britain. We

¹ Address made before the Delta Council at Cleveland, Miss., on May 8, 1947, and released to the press on the same date.

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are proposing this year to contribute a half billion dollars for relief and reconstruction in the Philippines, and a billion dollars to relief in occupied areas. The President's recommendations for aid to Greece and Turkey to the extent of 400 million dollars and for post-UNRRA relief to the extent of 350 million dollars are still under consideration by Congress. And there are a few other smaller items.

These measures of relief and reconstruction have been only in part suggested by humanitarianism. Your Congress has authorized and your Government is carrying out a policy of relief and reconstruction today chiefly as a matter of national self-interest. For it is generally agreed that until the various countries of the world get on their feet and become self-supporting there can be no political or economic stability in the world and no lasting peace or prosperity for any of us. Without outside aid, the process of recovery in many countries would take so long as to give rise to hopelessness and despair. In these conditions freedom and democracy and the independence of nations could not long survive, for hopeless and hungry people often resort to desperate measures. The war will not be over until the people of the world can again feed and clothe themselves and face the future with some degree of confidence.

The contribution of the United States towards world livelihood and reconstruction is best measured today not in terms of money but in terms of the commodities which we ship abroad. It is commodities—food, clothing, coal, steel, machinery—that the world needs, and it is commodities that we must concentrate our attention upon.

Our exports of goods and services to the rest of the world during the current year, 1947, are estimated to total 16 billion dollars, an all-time peacetime high. Before the war our exports of goods and services fluctuated around 4 billion dollars annually.

It is difficult to imagine 16 billion dollars' worth of commodities. This represents one month's work for each man and woman in the United States, one month's output from every farm, factory, and mine.

Let me give you another indication of the extent of our exports. The volume of commodities now moving out of east coast and Gulf ports of the United States is twice as great as the peak volume which moved out of those ports during the war when we were transporting and supplying not only

our own huge armies abroad but a tremendous volume of lend-lease supplies.

Our exports this year are perhaps the maximum, in quantity, that is likely to be exported abroad in the next few years. At the same time these exports are probably the minimum that we should make available to the world.

It is extremely difficult under present circumstances to increase the volume of our exports further. For in this country, too, there is a great demand for commodities, and foreign customers must compete with American customers. The character and composition of our exports will probably change, with lesser quantities of food, fuel, and raw materials being exported and increased amounts of steel, machinery, and other manufactured products going abroad. But the total volume of exports is not likely to increase substantially until the world gets soundly on its feet and a genuine world prosperity may carry a healthy multilateral trade to higher levels.

In return for the commodities and services which we expect to furnish the world this year, we estimate that we will receive commodities and services from abroad to the value of about 8 billion dollars. This is just about half as much as we are exporting. This volume of imports is equal to about two weeks' work of all the factories, farms, mines, and laborers of the United States, and consists largely of things which are not produced in this country in sufficient quantity. We wish that the imports were larger, but the war-devastated world is just not able to supply more.

The difference between the value of the goods and services which foreign countries must buy from the United States this year and the value of the goods and services they are able to supply to us this year will therefore amount to the huge sum of about 8 billion dollars.

How are foreigners going to get the U.S. dollars necessary to cover this huge difference? And how are they going to get the U.S. dollars to cover a likely difference of nearly the same amount next year? These are some of the most important questions in international relations today.

Of this year's difference between imports and exports, more than 5 billion dollars is being financed by loans and grants-in-aid from the United States Government, through such instruments as direct relief, the Export-Import Bank, the International Bank, the International Fund, and the loan to Great Britain. Funds for this purpose

have already been authorized by Congress. The remainder of this year's deficit will be covered by private investments, remittances of American citizens abroad, and by drawing down the extremely limited foreign reserves of gold and foreign exchange.

But what of next year, and the year after that? Continued political instability and "acts of God" are retarding recovery to a greater degree than had been anticipated. The extreme need of foreign countries for American products is likely, therefore, to continue undiminished in 1948, while the capacity of foreign countries to pay in commodities will probably be only slightly increased. Under existing authorizations, considerable sums will be available to offset next year's deficit. But these funds will taper off rapidly during the latter part of 1948. The need, however, will decline very little if at all.

This is not a bright picture. But we must face up to the facts on the rate of world recovery. It has been widely overlooked that after the first World War it was only in 1925 that the world arrived at the 1914 level of economic activity. And World War II was many times more destructive than World War I. In the late war nations planned on a vast scale and executed with new and tremendously improved weapons the destruction of the enemy's economic resources, with enormous success. Recovery will therefore be correspondingly slow.

One more thing to be considered is that as great as is our supply of commodities and services to the world during the current year, it is still far short of what the people of the world need if they are to eat enough to maintain their physical strength and at the same time carry on essential measures of reconstruction and become self-supporting. This will be true until the other workshops and granaries of the world are back in full production.

What do these facts of international life mean for the United States and for United States foreign policy?

They mean first that we in the United States must take as large a volume of imports as possible from abroad in order that the financial gap between what the world needs and what it can pay for can be narrowed. There is no charity involved in this. It is simply common sense and good business. We are today obliged from considerations

of self-interest and humanitarianism to finance a huge deficit in the world's budget. The only sound way to end this deficit financing is by accepting increased quantities of goods from abroad. There can never be any stability or security in the world for any of us until foreign countries are able to pay in commodities and services for what they need to import and to finance their equipment needs from more normal sources of investment.

Today in Geneva our negotiators are meeting with representatives of 17 other countries in an effort to negotiate a mutual reduction in trade barriers and an agreement upon fair rules to govern international trade. This is one of the ways in which we are attempting to face up to the realities of international life. The Geneva conference must succeed. The International Trade Organization must be established.

The Geneva conference must succeed not only because of the emergency supply and financial situation that exists today, but also because our position as the world's greatest producer and creditor nation demands that for a long period to come we accept an ever larger volume of imports. When the process of reconversion at home is completed, we are going to find ourselves far more dependent upon exports than before the war to maintain levels of business activity to which our economy has become accustomed.

The facts of international life also mean that the United States is going to have to undertake further emergency financing of foreign purchases if foreign countries are to continue to buy in 1948 and 1949 the commodities which they need to sustain life and at the same time rebuild their economies. Requests for further United States aid may reach us through the International Bank, or through the Export-Import Bank, or they may be of a type which existing national and international institutions are not equipped to handle and therefore may be made directly through diplomatic channels. But we know now that further financing, beyond existing authorizations, is going to be needed. No other country is able to bridge the gap in commodities or dollars.

This leads directly to a third imperative for our foreign policy. Since world demand exceeds our ability to supply, we are going to have to concentrate our emergency assistance in areas where it will be most effective in building world political and economic stability, in promoting human freedom and democratic institutions, in fostering lib-

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eral trading policies, and in strengthening the authority of the United Nations.

This is merely common sense and sound practice. It is in keeping with the policy announced by President Truman in his special message to Congress on March 12 on aid to Greece and Turkey. Free peoples who are seeking to preserve their independence and democratic institutions and human freedoms against totalitarian pressures, either internal or external, will receive top priority for American reconstruction aid. This is no more than frank recognition, as President Truman said, "that totalitarian regimes imposed on free peoples, by direct or indirect aggression, undermine the foundations of international peace and hence the security of the United States."

The fourth thing we must do in the present situation is to push ahead with the reconstruction of those two great workshops of Europe and Asia—Germany and Japan—upon which the ultimate recovery of the two continents so largely depends. This is what Secretary Marshall meant when he reported to the nation on April 28 that action on behalf of European recovery cannot await "compromise through exhaustion", and that we must take whatever action is possible immediately, even without full Four Power agreement, to effect a larger measure of European, including German, recovery. European recovery cannot be complete until the various parts of Europe's economy are working together in a harmonious whole. And the achievement of a coordinated European economy remains a fundamental objective of our foreign policy.

Finally, in order to carry out an economical and effective policy of relief and reconstruction along the foregoing lines, your Government is going to need the extension by Congress of certain executive powers over the domestic sale, transportation, and exportation of a limited list of commodities. Such controls have been in effect during the war and are still in effect under the President's war powers, but are due to expire June 30th of this year. It is vitally important that these controls be renewed. It is commodities that are needed in critical areas abroad, not just money. It is wheat and coal and steel that are urgently required to stave off economic collapse, not just dollar credits.

Your Government must therefore be able to insure equitable distribution of supplies as between the domestic economy and the export demand. This requires the extension of allocation powers

with respect to a limited list of commodities certified by the Secretary of State and the Secretary of Commerce as critical to the foreign economic policy of the United States. Powers to assign priorities directly to producing firms will be necessary for a still more restricted list of items. At the same time, a continuation of export controls is required in order to direct exports where we want them to go and to cut down unnecessary and undesirable foreign buying in the domestic market.

Power to assign priorities on transportation is also needed. This power is needed in order to insure the efficient use of transportation facilities, particularly freight cars. Without such authority it will be difficult to move bulky export commodities such as coal and grain in the required quantities.

Finally, certain legislation which would enable the Maritime Commission to insure maximum availability and efficient use of shipping is required in order to insure the success of our export programs with respect to bulky items such as coal and grain.

Legislative proposals of this nature have been presented to Congress, or will be presented in the near future. It is of the greatest importance to the foreign economic policy of this country, and thus to the security and well-being of the nation, that these powers be granted.

There is a story going the rounds about a man who, after listening to an extended lecture on the grave financial and economic difficulties of northern Europe and Great Britain, remarked, "And, just think, all the trouble was caused by a blizzard".

I think we will all agree that something more than a blizzard has caused Europe's current difficulties. But last winter's blizzard did show up the extremely narrow margins of human and national subsistence which prevail in the world today, margins so narrow that a blizzard can threaten populations with starvation and nations with bankruptcy and loss of independence.

Not only do human beings and nations exist in narrow economic margins, but also human dignity, human freedom, and democratic institutions.

It is one of the principal aims of our foreign policy today to use our economic and financial resources to widen these margins. It is necessary if we are to preserve our own freedoms and our own democratic institutions. It is necessary for our national security. And it is our duty and our privilege as human beings.

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by MLC NARS Date 2-9-73

recovery. Moreover political implications, including danger of widening cleavages among producer and consumer groups must be carefully considered. As to use of internal Government controls, hope that expanded production will permit early liquidation. However, normal price mechanism cannot function in face of present acute scarcities. U.S. cannot accept situation under which its aid goes directly into or replaces domestic supplies going into barter, compensation and black markets. U.S. also concerned as to internal political consequences of inequitable distribution of scarce vital commodities.

3. Comprehensive measures to foster multi-lateral intra-European trade, over and above any specific mutual aid arrangements. These measures should be directed toward:

a. Progressive replacement of bilateral trading arrangements by more effective multilateral arrangements for expanding intra-European trade, looking, if possible, toward an eventual European customs union. Bilateral trade and payments agreements within the group of participants in conflict with the mutual aid program should be abrogated. Possibilities of major trade barrier reductions, encompassing important commodity groups or smaller groups of nations, but short of general customs union, should be carefully considered. Recognize that partial measures of apparently preferential character may run counter to ITO principles. But in view short-run political and administrative obstacles to immediate commitment or rapid progress toward customs union,

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union, it appears vital to explore means for European trade barrier reduction falling short of customs union.

b. Facilitating multilateral trade through foreign exchange clearing arrangements among the participants or other means for achieving currency convertibility and transferability. Conference may propose U. S. support of clearing system, under suitable safeguards, either through dollar fund or through direction of portion U. S. commodity aid to countries with export surpluses, although Department has as yet no appraisal of probable Congressional reaction.

Discussion of Item 3.

While in many respects the long-run gains of European economic integration in terms of specialization of production and economic location -- achieved ideally through both a customs and a currency union -- would be the most beneficial consequences of a recovery program, these goals must be put in perspective in relation to more urgent short-run needs. Measures a and b above will contribute little to immediate restoration of production, but will grow in significance as production expands and domestic economies are stabilized. In first phase, therefore, Item 3 is subordinate to 1 and 2, although the groundwork must be laid immediately. In this connection, Congressman Herter has stated to Department that program merely aggregating national deficits and committing participants to customs union would be completely inadequate and unacceptable to Congress.

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E.O. 11652, Sec. 3(E) and 5(D)

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SUMMARY OF THE DEPARTMENT'S POSITION
ON THE CONTENT OF A EUROPEAN
RECOVERY PLAN

This is a working
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power, steel, or manpower. These requirements statements must be supported by justifications and must also be subjected to constructive mutual criticism and screening.

c. Development in concert of concrete proposals for mutual aid to meet requirements under (a) and (b) from sources within the area or under political control of the participants, including priorities in reactivation creating maximum mutual aid potentialities.

d. Adjustment of national agricultural and basic industry programs on area-wide basis, taking full account of mutual aid possibilities, and giving priority to bottleneck elimination and other opportunities for greatest speed in recovery.

e. Development of concrete and minimum requirements for outside aid as a residual of processes in (a), (b), (c), and (d).

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Discussion of Item 1.

Production recovery in agriculture and basic industries is cornerstone of entire program. Greatest hope lies in intensive attack on such problems as British and Ruhr coal production, French grain, railroad equipment repair, etc. Measures of planning, international allocations, and internal priorities to obtain promptest expansion are essential to speedy recovery with minimum outside aid at least while basic resources remain sharply limited. Such controls should be confined to fields of agriculture and basic industries and be progressively liquidated

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By MLT NARS Date 2-9-73

4. Program must be directed primarily toward short-run recovery rather than long-run development; full use of existing or readily repairable capacity and restoration of normal domestic and intra-European intercourse therefore have priority, although not excluding longer-run capital development necessary to meet goal in 1 above.

B. Essential Elements of Program. Program submitted for U. S. consideration must contain these elements:

1. Concrete proposals for area-wide recovery of agriculture and basic industries -- coal, steel, transport, and power -- which are fundamental to viable European economy. Proposals must correlate individual national programs and individual industry programs and give priority to projects promising quickest expansion of output. Bizonal German area must be taken fully into account. Stop-gap aid in coal, food, etc. pending European recovery must be minimized. Proposals must be fully justified through following steps:

a. Development of country requirements for food and end-products of basic industries (coal, steel, etc.) on realistic and defensible basis, with clearly stated standards, and intensive mutual criticism and screening.

b. Statement of specific national production goals in food and basic industries, with concrete proposed measures to attain those goals and specific stated requirements (if any) for extra-national aid in such items as fuel, fertilizer, mining and agricultural machinery,

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SECOND DRAFT

August 26, 1947

Summary of Department's Position on the
Content of a European Recovery Program

A. Fundamental Objectives. Department regards following features fundamental to U.S. concept of program:

1. Basic objective of program is to move entire area progressively from present condition to working economy independent of abnormal outside support, taking full account of basic changes in European conditions such as political developments in Eastern Europe, altered position of former colonial territories, and loss of overseas assets, merchant shipping and other prewar invisible exports.

2. Participants must take concerted efforts to foster European recovery as a whole, and show genuine readiness to make national contributions to this common goal.

3. Program must realize maximum opportunities for self-help and for mutual help within the area and thus minimize outside aid requirements; program must therefore concentrate initially on elimination of bottlenecks and other opportunities for greatest immediate recovery at lowest cost in scarce resources.

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4. Program

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as output increases and normal economic forces come into play. As to U. S. public views on this item, note that NAM industrialists meeting with Ness have expressed view that European program's main feature should be to set production goals for the basic industries and concentrate on their achievement.

2. Undertakings on domestic measures necessary for internal economic stabilization, efficient use of national resources to minimize outside aid, and fulfillment of mutual aid commitments. Proposals should recognize wide variations in need for remedial measures, which include:

a. Currency reform, correction of grossly inflationary fiscal practices, and price stabilization for essential commodities.

b. Collections, internal allocations and priorities, and rationing of essentials, during period of acute stringency.

c. Direction of supplies to fulfill mutual aid commitments, on priority equal to if not higher than internal use.

Discussion of Item 2.

These measures complementary to Item 1.

Full restoration of economic fabric internally will be possible only after production has increased, although much can be done immediately to reduce currency in circulation, reform taxes, etc. Must be recognized, however, that breakdown in normal monetary exchange is to considerable extent symptom rather than cause, and that over-drastring monetary and fiscal remedies without foundation in increased production may actually retard

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recovery

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recovery. Moreover political implications, including danger of widening cleavages among producer and consumer groups must be carefully considered. As to use of internal Government controls, hope that expanded production will permit early liquidation. However, normal price mechanism cannot function in face of present acute scarcities. U.S. cannot accept situation under which its aid goes directly into or replaces domestic supplies going into barter, compensation and black markets. U.S. also concerned as to internal political consequences of inequitable distribution of scarce vital commodities.

3. Comprehensive measures to foster multi-lateral intra-European trade, over and above any specific mutual aid arrangements. These measures should be directed toward:

a. Progressive replacement of bilateral trading arrangements by more effective multilateral arrangements for expanding intra-European trade, looking, if possible, toward an eventual European customs union. Bilateral trade and payments agreements within the group of participants in conflict with the mutual aid program should be abrogated. Possibilities of major trade barrier reductions, encompassing important commodity groups or smaller groups of nations, but short of general customs union, should be carefully considered. Recognize that partial measures of apparently preferential character may run counter to ITO principles. But in view short-run political and administrative obstacles to immediate commitment or rapid progress toward customs union,

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union, it appears vital to explore means for European trade barrier reduction falling short of customs union.

b. Facilitating multilateral trade through foreign exchange clearing arrangements among the participants or other means for achieving currency convertibility and transferability. Conference may propose U. S. support of clearing system, under suitable safeguards, either through dollar fund or through direction of portion U. S. commodity aid to countries with export surpluses, although Department has as yet no appraisal of probable Congressional reaction.

Discussion of Item 3.

While in many respects the long-run gains of European economic integration in terms of specialization of production and economic location -- achieved ideally through both a customs and a currency union -- would be the most beneficial consequences of a recovery program, these goals must be put in perspective in relation to more urgent short-run needs. Measures a and b above will contribute little to immediate restoration of production, but will grow in significance as production expands and domestic economies are stabilized. In first phase, therefore, Item 3 is subordinate to 1 and 2, although the groundwork must be laid immediately. In this connection, Congressman Herter has stated to Department that program merely aggregating national deficits and committing participants to customs union would be completely inadequate and unacceptable to Congress.

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C. Forms

C. 'Forms of Possible U. S. Assistance. Department regards formulation of program of maximum self-help and minimum outside aid requirements as primary Conference goal but recognizes importance to realistic program of guidance on general form of possible outside assistance. In this connection:

1. Assumed that in any event major part U. S. aid would be specified commodities or commodity groups. Extent of possible untied dollar assistance, either to support clearing system or otherwise, should be left open for review on merits.
2. Program should minimize dollar aid for purchases outside U. S. It is not (repeat not) intended to satisfy entire world's appetite for dollars ~~under~~ under guise European Recovery program. Efforts should be made to maintain existing commitments from other suppliers (such as Argentine and Canadian contracts for wheat to U.K.), with dollar aid being limited to increments beyond these commitments. This approach desirable both to limit total assistance requested Congress and to limit inflationary effects within U. S. of maintaining heavy export demands from other areas as well as Europe. Partial relief for dollar shortages outside Europe may of course be subject of negotiations apart from European program. Moreover, program should not exclude expenditures outside U. S. which would increase flow of essential goods to Europe and make real contribution to European recovery. A firm position on this point should not be taken until appraisal is possible of cost of financing extra-European trade and alternative means of securing and financing supplies for Europe from non-U.S. sources. Note press reports of possible large-scale Canadian loan to be

floated privately in New York.

3. Distribution of aid by U.S. should take into account recommendations by continuing European organization or where appropriate by other international allocating bodies (e.g., coal and food). However, U. S. aid will not be provided in totals for subdivision by Europeans. UNRRA precedent will not be followed. U. S. would hope to be guided by European recommendations but must retain freedom to modify allocations to assure most efficient use of aid and to enforce any agreed conditions.

D. Relations with Eastern Europe. On trade and financial relations of participating countries with Eastern Europe, Dept recognizes necessity of existing trade between Eastern and Western Europe and desirability of its increase. Program cannot, however, include provision of U. S. direct dollar or commodity aid to Eastern Europe because of political inacceptability here. U. S. will consider international measures of help for Eastern European countries designed to aid Western European recovery, e.g. World Bank loan to expand production and transport Polish coal; and recognizes necessity expanding production in Western countries in lines furnishing exports to Eastern Europe, to be exchanged against Eastern European exports of essential commodities to West. U. S. does not require abrogation bilateral agreements with Eastern European countries. Foregoing views obtain so long as Eastern Europe not clearly engaged in economic warfare against Western Europe.

E. Place of Germany in Program. On relation of Germany to program. Dept considers that three western zones, as unit or bizonal area

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By *ML*, NARS Date *2-5-73*

must be prepared to assume promptly functions assigned to other organizations if they prove ineffective.

G. Continuing Organization. Dept recognizes that present Conference cannot possibly make complete blueprint for European recovery over next several years. Initial program must conform to all above elements, but many details of its application will remain for further study. Modifications are also to be expected during negotiations with the U. S. before acceptance and in continuing development of any accepted program. Emphasis should be given to major role of continuing organization of participating countries (plus bizonal German area), both in implementing and in progressively refining any agreed program.

H. Procedures.

1. When the Conference has first draft of program, U. S. representatives in Paris should review it informally, presumably with Executive Committee. Review should cover both general policy matters and technical questions, and U. S. group in Paris should include technicians qualified on all phases of program. Purpose of review is to afford U. S. representatives opportunity to seek explanations and clarifications of points that are not clear. In such discussions, U. S. representatives would be guided by above statements on essentials of workable program. This should be opportunity to guide both content and conclusions of Conference report. It should be made clear that U. S. representatives are taking this action to facilitate presentation of program to U. S.

Government

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plus French zone, be covered fully into program. Revised level of industry agreement should be basis for inclusion of bizonal area, with changes required in interest of European-wide recovery recommended by conference on same basis that conference makes similar recommendations for changes in Mornet or other national plans. Rates of and priorities in reactivation of German industry should likewise be discussed by conference as part of similar discussion of achievement of other national plans. U. S. desires earliest possible self-supporting German economy, but recognizes that German recovery does not have priority over similar recovery elsewhere in Europe, and that recovery in Germany should not receive special impetus at expense of wider European recovery. On other hand, Dept will not agree to system of allocations of German resources or U. S. aid which would postpone German recovery until full recovery other countries has been assured.

F. Role of U.N. Dept supports fullest practicable use of United Nations bodies and specialized agencies in carrying out of program. This includes continued international allocation of coal through ECE Coal Committee and food through IEFC Committees, and technical planning work in ECE Committees on transport and power. Sympathetic to assignment to ECE of additional functions related to program. But Dept recognizes that coordination of European program and integration of UN activities with needs of this special program will probably have to be retained in organization composed only of participants (including bizonal Germany). In view possibilities systematic obstruction to ECE effectiveness, special European recovery organization must be able to handle entire program and

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Fr. NLT... NARS Date 2-9-73

Government and that it is not final U. S. critical analysis of program looking toward approval.

2. When the Conference has completed report, it should be transmitted to U. S. Transmittal by Bevin as Conference Chairman to Secretary Marshall would be satisfactory. Desirable to have document physically in Washington prior to release to press in Paris so that copies can be made here for distribution. First impact on U. S. public should not be through newspaper accounts cabled from Paris.

3. After report has been received in Washington and given at least cursory examination, it would be desirable for Conference representatives, presumably Executive Committee, to discuss it in Washington with U. S. Executive Departments.

4. Drafting of multilateral and bilateral agreements would start simultaneously with submission of proposed legislation to Congress.

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E.O. 11652, Sec. 302 and 303
DEPT. OF STATE LIAISON
By ALH DATE 2-13-73

EUROPEAN RECOVERY PROGRAM

BASIC DOCUMENT NO. 1

(Objectives Committee)

B-File



CONFIDENTIALBy MLT NARS Date 2-13-72

I.

Less than three years ago this country was still associated with a number of other countries in a great military effort designed to prevent the peoples of Europe from being enslaved by the aggressive and tyrannical power of Hitlerism. In that struggle each of the major participants contributed what it could. These individual contributions involved in varying degrees sacrifices in life, in physical values, and in the security and comfort of individuals. Some nations contributed predominantly in the destruction of human life and property which they suffered by direct armed action. Others contributed outstandingly in the heroism and self-denial of underground resistance. Our own effort brought us both grievous loss of life and much individual sacrifice; but the emphasis of our effort naturally lay on production, for which we were uniquely well equipped.

We in this country are not inclined to draw comparisons between the individual war efforts of the respective countries. We stand with heads bared in reverence before all the suffering and heroism which went into the common cause. We find no human standards by which to measure and compare the supreme individual sacrifices which crowned this common effort.

But it is clear that the varied nature of the contributions left the individual victor countries in diverse positions with respect to the problems of post-war adjustment and recovery. Here in this country we had given generously of our labor and our resources; yet

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situation was emerging; and that our own country, settling down to its own post-war adjustment, would have to observe different principles of caution and economy in any action of this nature which it might undertake in the future.

Specifically, it was clear that if further aid to Europe were to achieve any really useful purpose certain definite prerequisites would have to be fulfilled.

First of all, the aid would have to be granted according to some overall, integrated concept which took into account the problems of European nations in relation to each other and not individually. Further piecemeal approaches would not do.

Secondly, there would have to be a greater community of views among European countries as to what was required and a greater sense of collective responsibility for the common effort and for the effective utilization of U.S. aid. The problem of European recovery is essentially a European problem; and it was clear to us all that it could never be solved, even with U.S. aid, unless the European nations themselves were to evolve a solution and to acknowledge the basic responsibility for its promulgation.

It was these considerations which led Secretary Marshall to state on June 5, 1947 that before this Government could proceed much further in its efforts to alleviate the situation and help to start the European world on its way to recovery there would have to be some agreement among the countries of Europe as

discernible before the war and which, even in the best of circumstances, would sooner or later have imposed serious problems of adjustment. These had been aggravated by war-time developments.

Others arose from the normal consequences of an armed conflict of such vast dimensions. These proved to be more severe than had originally been anticipated.

Still others, however, arose from unexpected post-war developments which people in this country viewed with immense concern and regret: from the arbitrary division of the Continent into East and West; from the effective removal of certain once productive areas from the economic life of the Continent; from the lack of unity among the principal allied nations; and from the political insecurity and uncertainty which inhibited everywhere the natural forces of recovery.

In spite of formidable obstacles, the Allied nations of Western Europe made considerable progress toward recovery during the first year and a half after the end of the conflict in Europe. By the beginning of this year, however, the effect of these basic factors began to make itself evident and there emerged with increasing clarity the fact that the efforts of the Europeans and the aid we had already given would not be sufficient to do the whole job. Meanwhile, new difficulties were added by a winter of great severity. The total result was that as the year wore on the economic situation began to deteriorate and the recovery already achieved was gravely threatened.

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In consequence of all these factors, it became evident that there would have to be more outside assistance to Europe if a further deterioration of economic conditions throughout the continent were to be avoided; and that such assistance could come, for the most part, only from this country, since no other single economic entity or region possessed at this time the productive power to provide it. It also became clear that this economic deterioration which was to be expected if nothing further was done to aid the European nations would have serious repercussions in fields other than economic, and could not fail to react unfavorably on the chances for world peace and stability.

In analyzing the needs of Europe, as they were apparent to this Government last spring, it was clear that any sort of assistance to be granted in the future would have to be different in certain respects from that which had been granted in the past. This conclusion did not imply that aid granted in the past had been unwise or ineffective. There may have been individual instances in which this aid had not been fully or properly utilized; but such instances were exceptions and not the rule. In concluding that aid had to be granted on a different basis in the future if it were to achieve a useful purpose, this Government was merely recognizing that conditions had changed; that the requirements of European countries had entered into a new phase which differed sharply from the immediate post-hostilities period; that a new world economic

our productive power had increased, rather than diminished, during the war. Similarly, the patterns of life in our country had not been disrupted, as they had elsewhere, by the destruction of war and the dislocations of foreign occupation and oppression.

It was only natural that this country should do what it could, when the war was over, to assist those whose war-time experiences had left them in a less favorable position than ourselves to recover from the effects of conflict. This was readily recognized by the United States people; and it was from this basic consideration, as well as from a genuine humanitarian concern for human suffering anywhere, that this country promptly extended, during the immediate post-hostilities period, aid to Europe in an amount exceeding eleven billion dollars. These sums were made available by the United States people cheerfully and generously, in the hope that they would suffice to bring all the peoples of a war-torn continent back to the point where their own economic strength and initiative could be brought fully into play and enlisted, along with our own, in the movement toward a more stable and abundant world economy.

When the smoke of battle had cleared away from the fields of Europe and the pattern of post-war developments had begun to emerge, it became clear that the difficulties with which Europe was contending were more far-reaching and serious than anyone here could have foreseen at the termination of hostilities.

Some of these difficulties, to be sure, reflected long-term trends of development which were already

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to the requirements of the situation and the part those countries themselves would take in order to give proper effect to whatever action might be undertaken by this Government. Secretary Marshall suggested that the initiative in the drafting of a European program should come from Europe and that the program should be a joint one agreed to by a number, if not all, of the European nations.

In response to Secretary Marshall's suggestion, representatives of a number of European nations assembled in Paris in July, at the invitation of the British and French Governments, to draw up a program of European recovery.

A number of other European governments declined to participate in this work. In taking this decision, they made it impossible for others to count on their cooperation in planning the recovery of Europe, and they cut themselves off voluntarily from a share in any aid which the U.S. people might find it possible to render to an over-all European recovery program. It must be emphasized that it was not the desire of this Government to see excluded from participation in the common task of restoring European economy any European nation which sincerely wished to cooperate. The decision of certain governments not to participate in the preparation of the Paris report was one which was not influenced in any way by this Government. Responsibility for the consequences of this decision to the peoples concerned and for the added obstacles which it placed in the path of economic improvement

throughout the Continent rests squarely on the governments concerned.

The sixteen nations which met at Paris completed their report on September 22nd and it was transmitted on that date by the Chairman of the Conference to the Secretary of State of the United States, with an indication that it had been prepared in response to the latter's suggestion and with an expression of hope that it would help to solve the economic problems of the European continent.

Subsequent to its transmission to the Secretary of State, representatives of the Paris Committee by which the report was prepared visited Washington and discussed the report with representatives of this Government and with other interested parties in Washington. In these discussions certain supplementary technical data was made available and certain features of the report were further clarified.

Meanwhile, in order that we might be prepared to consider expeditiously and carefully the results of the Paris Conference when they became available, several qualified groups including outstanding private citizens had been asked to assemble data on the extent to which we could give aid to Europe without adverse effect on our own economy. At the same time, a large number of members of the Congress visited Europe for the purpose of acquainting themselves at first-hand with the situation there.

Supplemented by the discussions we have had with the representatives of the Paris Conference, the

reports of our own resources and capabilities, and the information gathered by the Congressional committees and our own experts, the Paris Conference report now lies before this Government.

While all these steps have been proceeding, the economic situation in Europe has continued to deteriorate. To the effects of the severe winter of last year have been added those of a widespread summer drought. The world shortage of many materials, particularly food, has made it impossible wholly to make up the deficits from other parts of the world. Under the pressure of mounting needs for imported supplies, European reserves have dwindled rapidly, and many countries are being compelled to reduce their foreign purchases to all but the barest essentials of life, with inevitable consequences to the maintenance of production. Some countries can measure their remaining resources only in terms of weeks.

This grave economic situation has meanwhile become the center of a political controversy which this Government cannot ignore. Representatives of an important world-wide political movement with its center in Europe have made evident their determination to oppose and, if possible, to frustrate for political reasons any realistic program of European recovery. This action is undertaken with the pretext of defending Europe from a domination by this country.

This Government finds it regrettable that the economic problems and hardships of the sorely tried peoples of Europe should become the object of political

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E.O. 11652, Sec. 3(2) and 5(D)

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maneuvering. In its approach to the problem of aid to Europe it has made no political conditions and raised no political considerations. It is not doing so now. If U.S. aid to Europe in the coming months and years has political significance it is because that significance has been given to it by groups in Europe who found it detrimental to their political interests that European recovery should proceed.

The facts are now before us. The time has come to determine what action this Government will take.

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II.

The first and the most basic question we face is whether it is desirable in principle that the U.S. people should undertake at this time a large-scale effort to aid European countries.

There can be no doubt as to the interest of the U.S. people in the recovery of Europe and particularly of those countries which have joined, in response to our suggestion, in drawing up a program for European recovery.

We do not need to question the stake which the United States has in the maintenance of the true independence of these European countries and of their freedom to develop their national lives in an unbroken continuation of the great traditions of their past. We have fought two wars to prevent the free peoples of Europe from falling under the domination of a single great power. To deny our interest in the ability of these people to defend their independence today would be to disclaim the efforts and sacrifices of two generations of Americans.

We must face frankly the fact that without our assistance at this time the economy of the countries of western Europe must be expected to suffer a disastrous deterioration. In the wake of this deterioration can only come hardship, discouragement, bewilderment, and loss of confidence in the possibility of solving problems by moderate and democratic means. It is entirely possible that this would lead to a widespread repudiation of the principles on which so much of European

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civilization has reated for so long--the principles of law, of justice, of respect for individual dignity, and of restraint in the exercise of political power. Such a repudiation would undo the work of centuries and would constitute a shattering blow to the efforts of this country to achieve peace and stability in world affairs. In such a contingency we should have to undertake a basic revision of the whole concept of our whole international position--a revision which might logically demand of us material sacrifices and restraints far exceeding the maximum implications of a program of aid to European reconstruction. But in addition to this we would suffer, in common with most of the rest of the world, a cultural and spiritual loss incalculable in its long-term significance.

To stand passively by and to permit developments to take such a course would be inconsistent not only with the interests of United States people themselves but with the obligations of leadership which devolve upon them by virtue of their character and resources and of the great part they are bound to play in the economic and political life of the world. We must face the fact that whatever we do in this matter, whether positive or negative, cannot fail to have a profound effect on world affairs in general in the coming period.

On the other hand, there is no reason to believe that these European countries are in any sense beyond our capacity to aid. On the contrary, there is every evidence that the difficulties from which they are

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suffering at this moment are temporary, and even in large measure fortuitous, in nature.

Many factors contribute to the situation in which these countries find themselves. One thing is certain--they are not yet in a position to fill for themselves their essential needs for food and fuel and the materials to feed their industries. They cannot produce them all in Europe. Their exports cannot yet pay for them. They cannot purchase them from their almost exhausted capital reserves.

It is a fact that a large part of the basic requirements of these countries can at this time come only from the United States. This presents to us both a responsibility and a challenge. It is to this country, and almost to this country alone, that they must look for the extraordinary yet temporary support needed during this crisis of civilization to permit them to recover economic hope and health--to preserve a way of life that represents a culmination of centuries of striving for better things.

There is evidence that great indigenous reserves of energy and idealism, as well as of economic resources, are present throughout the Western European area. They are capable of being released by an appropriate combination of psychological and economic factors. There is every reason to believe that once released they are powerful enough to assume and to bear the main burden of the recovery effort. For us to deny assistance at this moment would be to connive with the factors of war, of chance, and of ill will to destroy the traditional

personality of Europe in what is, for the peoples of that continent, a moment of temporary weakness and yet of fateful decision.

It is for this reason that the Administration is presenting to the representatives of the American people in the Congress a request for action leading to adequate though defined support of a program for the economic recovery of Europe. It is the belief of the Administration that such support, wisely and safely given, can on the basis of calculable risk make possible the European actions necessary to cure the economic illness of Europe within a period of four or five years.

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III.

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If it is recognized as desirable in principle that we should undertake a program of aid to Europe, the question next arises as to the basis on which such a program should be drawn up. To answer this question it is essential that there should be a correct understanding of the nature of the report of the European committee and of its relation to any action this Government may undertake.

The preparation by the European governments of a study of their own requirements was indispensable if any further large-scale aid to Europe were to be granted. It is clear that such aid, if it is to be effective, must be related to some orderly concept of Europe's future economic development, and to one for which the European governments concerned are prepared to accept responsibility. Had this Government undertaken to evolve unilaterally a program of this sort and to make it the basis of aid to Europe, its soundness and validity would always have been open to some question in Europe, and the European governments would not have been in a position to feel a true sense of responsibility for its success.

Nevertheless, it is important to bear in mind certain necessary limitations on the scope of a report of this nature.

Such a document could not include firm predictions of things to come. Its authors unavoidably had to reckon with many factors of uncertainty and to make assumptions

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as to those factors which lay beyond the control of their governments. For limitations of time, if for no other reason, estimates of future developments could be based only on the data available to the authors of the report, which were not--and could not be--an adequate basis for firm prognostications of the future.

Nor could the report constitute an operational blueprint for the regulation of European economy in coming years. The authors of the report were dealing with a wide variety of national economic systems, each of which operates in a different way. And we would have been the last to urge that the Europeans endeavor to set up some sort of international planned economy to affect their recovery.

Finally, it was not part of the task of the authors of the European report to evaluate and to take into detailed account in their analysis the difficult and important factors of availability in this country of the resources which might be required for aid to European recovery.

In these circumstances a report of this nature could not be more than a survey of the existing economic situation and an indication of the general manner in which the economic programs of the various countries could, with American aid, be directed to achieve the common goal of European recovery. As such, it could serve only as a general point of departure for a European recovery program: as an initial indication of the direction in which that program would be oriented and of the general purposes for which United

States aid, if forthcoming, would be used. There was never any thought that this document should serve as a detailed working basis for the determination of the precise character and quantity of aid to be supplied by this country. This was clearly recognized by the authors of the report themselves, who made it plain that their statement of the expected deficit of the participating countries and western Germany in their trading relations with the American continent and the non-participating countries was set forth only for purposes of general orientation and that the participating countries "neither ask nor expect" special aid from the United States to the full amount of that deficit.*

The Executive Branch of this Government has examined the European Committee report with great care and in detail. It was right that it should do so. In consequence of this examination, and recognizing the preliminary nature and the inescapable limitations of this effort, it finds the report an enlightened and constructive approach to the problem in question and feels that it deserves acceptance by us, as the basis for a European recovery program to which our aid and our support might suitably be directed. It considers that an expression of appreciation is due to the authors of the report and to their governments for the confidence they have shown in the good faith and sincerity of our people by their prompt and wholehearted response to a suggestion emanating from this Government.

* Paragraph xi, Preamble, Vol. 1, General Report of the Committee on European Economic Cooperation.

At the same time it must be clear to everyone that the actual framing of any program of aid which this Government may put in hand must proceed from a number of considerations beyond those set forth in the report itself, and must be strictly adapted to the needs of a healthy United States economy.

It should also be made plain that in accepting a European recovery program based on the Paris report as an object worthy of United States support, this Government cannot and does not mean to endorse any of the prognostications or analyses of the report or to give the peoples of this country or of Europe any assurance that our aid will produce the exact results which the calculations of the report might seem to indicate.

We must remember that in the questions of European recovery we are dealing not with a static substance but with the dynamic material of human affairs. We cannot hope by mechanical calculation to achieve fixed results by any given date. We are operating in a fluid and rapidly changing environment; and the best we can do is to see that a moving stream of events is impelled in directions which are favorable to the results we seek. The future is surrounded with a multitude of uncertainties. It is impossible for us to find any course which gives 100 percent certainty of favorable results and which does not have its own attendant dangers. Whatever we do in the nature of aid to Europe must involve a risk. But if we give aid promptly and generously, that risk should be a calculable one. Whereas if our aid should be too late or too little the attendant risk would be, in the opinion of this Government, incalculable.

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IV.

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EO 11652, Sec. 302 and 309

By SLT NARS Date 2-17-73

It may be asked how a program of aid directed to European recovery would fit in with United States economic objectives in general.

It should be clearly understood that the recovery in European countries which we would seek to promote by this sort of an aid program could not be expected to constitute in itself a solution to the long-term problems of world economy; nor could it be expected to meet fundamental difficulties being encountered in areas of the world other than western Europe. It is in no sense a substitute for our longer-term program to create a fabric of international economic relationships which will permit the nations to develop their resources and capabilities and to achieve a rising standard of living for their people. It cannot replace or make unnecessary our efforts to clear away barriers to international trade, to abolish discriminations, and to achieve general financial stability. It may not even provide an answer to certain of the long-term problems of adjustment with which the European peoples themselves are faced.

The adoption of a program of aid to Europe will not therefore relieve us of the obligation to continue our efforts to get to the root of the broader problems of international economic life, and to promote acceptable solutions. On the contrary, the very need for a program of aid to Europe at this time should demonstrate to us how direct is the relation between

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to the Far East bears a resemblance of that of Germany to Europe. Here, too, it is apparent after two years of occupation that the Japanese people must again be put to work for the common benefit if the Far Eastern economy is to be revived.

The Far East does not present the same degree of integration as the group of countries on the European continent. The countries of that area will need help in the restoration of their production and transport if they are to solve their own problems. However, the character and magnitude of this aid will not be that called for by the European situation.

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We are not insensitive to the desire of other areas of the world to rehabilitate and expand their productive resources. In the case of those countries which were not theaters of war--notably the other countries of the American hemisphere and the Middle East and Africa--their desire is primarily for the improvement of the standard of living beyond pre-war. Such development is clearly in the interest of the world at large, but it cannot take the same priority as the reconstruction of the war-torn European continent.

The United States will clearly continue to be an important source for the capital needs of these countries. In the longer run, it is our hope that the private investment markets will be the major source for these needs. Meanwhile, agencies now exist--including the World Bank and the Export-Import Bank--for dealing with the most pressing needs of these areas.

The Far East presents a different problem. The maintenance of even minimum living standards for the vast population of that area depends on the restoration of at least pre-war levels of production and a resumption of trade, particularly within this region.

Unfortunately, the countries of the East are torn by strife and political dissension and the prospects of a common approach to their problems in the near future do not appear great.

In Japan, as in Germany, the United States has been confronted with the necessity of supplying large amounts of aid merely for the purpose of maintaining the life of the population. The relationship of Japan

our economy and world stability, and how imperative it is that we continue with courageous and realistic efforts in cooperation with other nations to create the economic basis for a peaceful world in which crises such as that with which Europe is now afflicted cannot arise.

But if the recovery of these European countries is not alone an answer to the broader problems of world economy which we face, we may be sure that it will greatly facilitate the implementation of solutions to these problems. In fact, without the recovery of western Europe, it is doubtful that any of these solutions could be satisfactory. The immediate problem with which the world is confronted is primarily a problem of production. What is proposed is that we deal in a particular way with the problems of a particular area which has constituted the center of the network of world trade and finance. If Europe can be restored to economic health, the effects will be radiated throughout the world. The restoration of European production will make possible the resumption of a more normal trade relationship between Europe and other areas of the world and will contribute to the solution of the financial problems of the non-European countries. But there is no implication in this that the approach selected in the case of Europe would be applicable elsewhere, or would obviate the need for continued careful attention to the requirements, on their own merits, of our economic relations with other areas.

V.

It has frequently been asked how we would expect a program of United States aid to the sixteen nations represented at the Paris Conference to affect the trade of those countries with other countries in Europe and elsewhere.

As stated above, this Government has made no move to exclude any of the European countries from the operation of this program. The decisions as to which nation should participate and which should not were taken in Europe. This Government considers essential to the effectiveness of any general recovery program a willingness on the part of the participating European governments to collaborate closely with one another in the formulation of common needs, to pledge maximum assistance to one another in the form of self-help and mutual cooperation, and to accept a joint responsibility for the progress of the program. This Government cannot consider as qualified for aid under the concept of such a program any government which is not willing to accept these obligations.

On the other hand, the purpose of American aid would be to promote, not to disrupt, the development of the normal channels of world trade. Accordingly, in the event that this Government extends aid to an economic recovery program in the west, the United States Government would look with favor on any trade

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between participating countries and any other economic areas, whether in eastern Europe or elsewhere, as long as the nature of this trade was such as to promote the overall objectives defined in the Faris report.

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VI.

Circumstances have made it necessary that this program of European recovery be considered, at least in a preliminary way, before any agreement has been reached among the major allies on the German peace settlement. At the present moment Germany is effectively partitioned, for economic and political purposes. Whether that partition will be maintained or whether unity can be achieved for Germany is a question which will be discussed at the Council of Foreign Ministers meeting in London which opens on November 25. Before we know the results of that meeting, it will be difficult to determine Germany's final relationship to a program of European recovery.

The primary objective of U.S. policy toward Germany is to prevent a recrudescence of German militarism and to see that the Germans never again menace the other people of Europe and the world. The draft treaty on disarmament and demilitarization of Germany which has been put forward by this Government in recent meetings of the Council of Foreign Ministers is an emphatic manifestation of this policy.

Without prejudice to these considerations of security this Government considers, however, that a limited restoration of German production is absolutely essential to European recovery.

This Government has recognized from the start that recovery in the allied countries should be given precedence over recovery in Germany. The present

situation in the U.S.-U.K. zones, however, in which industrial production is less than half of pre-war, food supplies are considerably below the minimum requirements for health and efficiency, and foreign trade is only a trifle of its former dimensions, represents a degree of retardation in the recuperation of German production far greater than any reasonable system of priorities would warrant. Between this point and a point where it could be claimed that the interests of German economy were being favored over those of Germany's present neighbors, there lies a wide gap most of which must be filled before general European recovery can become a reality.

This Government would be prepared to see a truly united German economy integrated into a program of general European recovery, if this can be done in such a way as to promote European security as well as the overall objectives of the recovery program. If Germany cannot be united at this time, we would be prepared to see such an integration attempted for the western zones alone, although in this case recovery will be slower and more costly.

In any case, unless some means can be found to increase materially the contribution which Germany is capable of making to the recovery of other western European countries, it is impossible to see how European recovery can be achieved.

VII.

If aid is granted to Europe in accordance with the concept now proposed, this will constitute a major step on the part of this Government, comparable only to the great war efforts in which the United States people have engaged. It is important that such a step be taken in a form commensurate to the immense significance of the purpose it is designed to serve. Our action should be prepared and considered with the greatest of care; but it is important that what we do should not be petty in concept or in execution.

An undue preoccupation with detail can blind us to the major function of our action and to its overall significance. An excessive paring of individual items of aid can disrupt the broad pattern of what we are undertaking. A lack of consideration in the manner in which we carry our action to the European nations may destroy much of its effectiveness and lend substance to those who have been so quick to malign in advance the motives of our action.

It has been characteristic of the United States people that they are slow to make up their minds, but that having once made them up, they do things in a big way.

If we now set out to bring aid to the troubled peoples of Europe, let us do it in a bold and generous manner, consistent with our own traditions and with the magnitude of the problem we are facing.

Text of Statement by Paul G. Hoffman
Economic Cooperation Administrator, before
Organization for European Economic Cooperation,
Paris, France

For release upon delivery, expected at 11.00 A.M. GMT
October 31, 1949

NOT TO BE FILED ON ANY WIRE BEFORE 4:30 A.M. EST
(9:30 A.M. GMT), October 31, 1949

It has been fifteen months since I had the privilege of meeting with this Council. In that period, western Europe has made truly amazing progress in restoring its industrial and agricultural production. That progress is the result of work, hard work on the part of millions of Europeans. That is the human story behind the cold statistics of production increases. We applaud the success of your efforts.

We in the Economic Cooperation Administration and you in the Organization for European Economic Cooperation have come to know each other well. Through working with you toward our common objectives, we have come to hold the Organization for European Economic Cooperation in high esteem; and our feeling toward its members is one of deep friendliness. I am delighted to be here and I am pleased to note the presence of the representatives of the German Republic as full partners in your organization. It is as an admiring friend of the Organization for European Economic Cooperation that I speak to you today.

Since 1947 we have confounded both the Communists and the other cynics by proving first that together we could successfully start economic recovery in western Europe, and second that we could join in laying the foundation for security against attack upon our Atlantic community. We have seen anxiety give way to hope. Today I am asking you to turn hope into confidence.

brilliant success in overcoming the dollar deficit in the next two years, the end of ERP in 1952 will at best leave Europe in only a precarious balance with the dollar area. Monetary reserves will be inadequate and it is plain that dollar shortages will recur in one country or another the first time the European economy is subjected to serious pressure. In the absence of integration, nations would each separately try to protect their dollar reserves. They would attempt to earn dollars from each other by restricting imports. The various cycle of economic nationalism would again be set in motion. The consequences would be the cumulative narrowing of markets, the further growth of high-cost protected industries, the mushrooming of restrictive controls and the shrinkage of trade into the primitive pattern of bilateral barter.

This course spells disaster for nations and poverty for peoples. This is why integration is not just an ideal; it is a practical necessity. This being so, it is your job to devise and put into effect your own program to accomplish this purpose just as it was your responsibility—which you carried out so ably—to take Secretary Marshall's original suggestion and give it life and breath. In a program designed to accomplish effective and lasting integration, certain fundamental requirements suggest themselves. First, means must be found to bring about a substantial measure of coordination of national fiscal and monetary policies. Trade and payments cannot long continue free among countries in which there are widely divergent degrees of inflationary or deflationary pressure. The development of such differences in financial pressures among different countries will inevitably force the re-imposition of restrictive controls. Unless individual countries accept the necessity for some coordination of domestic financial policies, the prospects for eliminating even the most restrictive types of controls over international trade will be dim indeed. Coordination of these vital national policies need not result in identity of policy. Coordination need only go so far as to in-

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The European Recovery Program is now approaching the half-way mark. The time has come to consider carefully what more must be done. To hold the ground already gained and to assure the further progress that is vitally needed, we must now devote our fullest energies to two major tasks. These tasks are, first to balance Europe's dollar accounts so that Europe can buy the raw materials and other items which mean employment and better living. The second — and to say this is why I'm here — is to move ahead on a far-reaching program to build in western Europe a more dynamic expanding economy which will promise steady improvement in the conditions of life for all its people. This I believe means nothing less than an integration of the western European economy.

The first of these tasks can be achieved only through vigorous and effective action by this organization and by every participating government. Unless dollar earnings rise dramatically between now and June, 1952, Europe's trade with the Americans will have to be balanced at so low a level that it will spell disaster for you and difficulties for us. The readjustment of exchange rates which occurred in September paved the way for a larger expansion of dollar earnings, but devaluation by itself is obviously not enough. I want briefly to mention two specific fields of action which seem to me especially relevant to this objective. One concerns domestic fiscal policy. As was clearly foreseen by your governments, devaluation, essential though it was, gave new impetus to inflation. If as a result the past year's efforts at stabilization are undone, and your costs and prices are allowed to rise, the potential benefits in dollar earnings will never be realized. This should not be allowed to happen. Unpleasant though it may be, action, particularly budgetary action to prevent inflation, is imperative. The other field of action I have in mind is the provision of direct incentives to private exporters. Practically all Europe's exports are furnished by private producers. Governments may set targets, they may exhort, but unless sales in dollar markets bring adequate rewards to sellers,

the great effort required to enter and hold those markets will never be made.

Urgent as I regard the first major task, that of balancing Europe's trade with the dollar area, its performance will not be meaningful unless we have come to grips with our second task, the building of an expanding economy in Western Europe through economic integration.

The substance of such integration would be the formation of a single large market within which quantitative restrictions on the movement of goods, monetary barriers to the flow of payments and eventually all tariffs are permanently swept away. The fact that we have in the United States a single market of 150 million consumers has been indispensable to the strength and efficiency of our economy. The creation of a permanent freely trading area comprising 270 million consumers in Western Europe would have a multitude of helpful consequences. It would accelerate the development of large scale, low-cost production industries; it would make the effective use of all resources easier; the stifling of healthy competition more difficult. Obviously such a step would not change the physical structure of European industry or vastly increase productivity overnight, but the massive change in the economic environment would, I am convinced, set in motion a rapid growth in productivity. This would make it possible for Europe to improve its competitive position in the world and thus more nearly satisfy the expectations and needs of its people. This is a vital objective. It was to this that Secretary Marshall pointed in the speech which sparked Europe to new hope and new endeavor. It was on this promise that the Congress of the United States enacted the Economic Cooperation Administration Act. This goal is embedded in the Convention of the OEEC.

I know that the difficulties which stand in the way of its achievement will spring all too readily to mind, but before integration is dismissed as a merely romantic possibility too remote to have any bearing on practical immediate decisions, I invite you to weigh the alternative. Even assuming

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Text of Statement by Paul G. Hoffman
Economic Cooperation Administrator, before
Organization for European Economic Cooperation,
Paris, France

For release upon delivery, expected at 11.00 A.M. GMT
October 31, 1949

NOT TO BE FILED ON ANY WIRE BEFORE 4:30 A.M. EST
(9:30 A.M. GMT), October 31, 1949

It has been fifteen months since I had the privilege of meeting with this Council. In that period, western Europe has made truly amazing progress in restoring its industrial and agricultural production. That progress is the result of work, hard work on the part of millions of Europeans. That is the human story behind the cold statistics of production increases. We applaud the success of your efforts.

We in the Economic Cooperation Administration and you in the Organization for European Economic Cooperation have come to know each other well. Through working with you toward our common objectives, we have come to hold the Organization for European Economic Cooperation in high esteem; and our feeling toward its members is one of deep friendliness. I am delighted to be here and I am pleased to note the presence of the representatives of the German Republic as full partners in your organization. It is as an admiring friend of the Organization for European Economic Cooperation that I speak to you today.

Since 1947 we have confounded both the Communists and the other cynics by proving first that together we could successfully start economic recovery in western Europe, and second that we could join in laying the foundation for security against attack upon our Atlantic community. We have seen anxiety give way to hope. Today I am asking you to turn hope into confidence.

ure that policies will not diverge so drastically as to break down the whole structure of European unity, but it must go at least that far.

Another essential of your plan, I believe, is that it should provide means for necessary exchange rate adjustments subject of course to the general supervision of the International Monetary Fund, where these are the only feasible alternatives to imposing direct exchange controls within Europe. This is necessary because there will be occasions when either for reasons of policy or as a result of circumstances beyond the control of government, prices and costs in one country will diverge from those in other countries too far to be brought into line through internal financial measures alone. Even when effective means are found to coordinate financial policies and to promote needed exchange rate changes, there are still bound to be temporary disturbances in the flow of trade and payments between countries. Their whole impact should not be allowed to fall upon the gold and dollar reserves of the individual countries.

I believe, therefore, that a third essential of any plan you devise must be a means to cushion the effect of these inevitable temporary disturbances. Fourth, means must be found to insure that severe strains are not imposed upon the maintenance of integration through conflicting commercial policies and practices. Such strains might arise from disguised barriers to trade within an area, or from radically divergent policies toward external trade.

This brings me to our final suggestion which has to do with the path by which this goal of integration may be reached. I have repeatedly referred to the creation of a single European market. Many of the immediate steps that need to be taken toward this goal can and will involve the whole group of the participating countries, but there are other arrangements, some already in prospect, involving smaller groups of countries, which I am convinced will also turn out to be steps toward the same objective. I do not believe that

any path toward integration should be left unexplored. It seems to me absolutely essential that arrangements arrived at within groups of two, three or more countries should be in harmony with wider possibilities of European unity and should under no circumstances involve the raising of new or higher barriers to trade within Europe than already exist.

I feel therefore that while pressing forward to the broader objective of economic integration of all the participating countries, we should not slacken our efforts toward establishment of close economic arrangements within one or more smaller groups of countries, always with the intention that those should contribute toward and not be turned against the integration of the whole of western Europe and its overseas territories. I have made a number of references to the urgency of starting immediately on this program of integration. My conviction on this point is based in the first place on the acute realization of the very short time still remaining during which American aid will be available to cushion the inevitable short run dislocation which a program of integration will involve. There is another very important reason for speed. The people and the Congress of the United States, and I am sure a great majority of the people of Europe have instinctively felt that economic integration is essential if there is to be an end to Europe's recurring economic crises. A European program to this end, one which showed real promise of taking this great forward step successfully would, I strongly believe, give new impetus to American support for carrying through into 1952 our joint effort toward lasting European recovery.

For all these reasons, but particularly because of the urgency of the need, I do make this considered request that you have ready early in 1950 a record of accomplishment and a program which together will take Europe well along the road toward economic integration. By accomplishment I mean really effective action to remove the quantitative restrictions on trade on

which you have recently made a start. I also mean the elimination in Europe of the unsound practice of double pricing, that is maintaining export prices for fuel and basic materials at higher levels than domestic prices. This practice results in higher production costs throughout Europe. It cannot be squared with your pledges of mutual aid.

By a program I mean a realistic plan to meet the fundamental requirements I have described. Perhaps you will accomplish this through adaptation of existing institutions. Perhaps you will find that new central institutions are needed. We are together playing for high stakes. In this program the immediate goal is a solidly based prosperity for an economically unified western Europe, a goal which President Truman reaffirmed to me just before I left Washington. Beyond that lies what has been the hope of all men of good will during your lifetime and mine, an enduring peace founded on justice and freedom. That high hope can be realized if we the people of the free world continue to work together and stick together.

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9. Hoffman was the only man seriously considered by Senator Vandenburg and myself (no mention was made of any Taft role in this selection -- REF). The position required a man of competence, particularly someone completely unselfish who sought no personal gain from the position (most people do). Hoffman filled the bill.

10. Unlike most earlier State Department programs the ERP required large sums of money which meant that the House had to be fully considered. This varied from the normal Senate-treaty procedure and created jealousy between House and Senate leaders -- a further problem for Vandenburg.

11. Acheson, Clayton, Cohen speeches and statements did not represent "trial balloons" or any sort of build-up for the ERP. In fact, "I gave Cohen hell" for his West Coast speech (about April or May?) for fear that it would reveal my plans and start the much feared "premature debate".

12. In my opinion the Soviet Union and her bloc came close to associating themselves with the ERP. They changed their minds only after the Paris consultations.

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my speech, particularly my statement that the U.S. proposal was aimed at hunger, poverty, and chaos and not against any group and my inclusion of all Europe including the Soviet Union and her satellites. Despite their opposition I insisted on formulating the speech as it was finally delivered.

5. As implied in the speech, I insisted that "the European countries come clean" -- that is, that they come up with a workable plan for European recovery based on actual requirements, not what they thought the U.S. would give. For this reason I insisted that we not help Europe in the formulation of the European Recovery Program. I was subjected to heavy pressure from Clayton (then in Switzerland), Lew Douglas and others to let them consult with the Europeans and to let them advise the Europeans on the formulation of a plan for European recovery. However, I issued "an almost arbitrary, military-type command" that they were not to participate with the Europeans in the formulation of this plan. (It is my recollection that Clayton did go to Paris to assist the Europeans in the formulation of the recovery plan. If my recollection is correct Clayton urged the Europeans to scale down drastically their early estimate of dollar requirements to a figure which might be acceptable to the U.S. Congress -- REF).

6. The plan had not been discussed with Europe in advance and Europe's prompt response represented quick foot work. Bevan and Bideault vied for leadership in the formulation of the ERP with Bevan generally winning out. The ability and character of Oliver Franks played a large part in the quality of the result. Getting Europe to agree that Britain should receive "such a large plug" of the total U.S. aid was one of the major problems.

7. The selling of the ERP to the American people was an exacting task and I traveled so widely in this regard it "almost seemed as though I were running for office". I had good success in enlisting the cooperation of special interest groups although it was particularly tough to get the cooperation of those groups representing items in short supply (wheat, cotton, tobacco, etc.). Ironically, by the time the Marshall Plan was put in operation these items were in surplus supply and a reverse pressure to export these items through the Marshall Plan was exerted.

8. Senator Vandenberg was not consulted prior to the Harvard speech. He soon became a full partner in the adventure, however, and we consulted together twice weekly at the Blair House. These meetings were kept secret and this secrecy resulted in charges that I was not enlisting bipartisan support. I worked closely with Senator Vandenberg on the Vandenberg resolution -- in fact, the first draft of this resolution was prepared by Lovett at my request. Senator Vandenberg took the Lovett draft and "improved it 1000% on his own typewriter". I feel that Vandenberg has never received full credit for his monumental efforts on behalf of the European Recovery Program. "Vandenberg was my righthand man and at times I was his righthand man."

GENERAL GEORGE C. MARSHALL

30 October 1952

Present: Harry B. Price
Roy E. Foulke

1. The Marshall Plan was an outgrowth of the disillusionment over the Moscow Conference which proved conclusively that the Soviet Union was not negotiating in good faith and could not be induced to cooperate in achieving European recovery. Consideration was given to inaugurating the European Recovery Plan at the conclusion of the Moscow Conference but I vetoed this suggestion because I did not want it to appear that the western allies had come to Moscow Conference with a prior agreement to go ahead without Soviet cooperation. Further, differences with Britain over reparations, etc. and the necessity for working out details of the plan prevented disclosure at this time.
2. The cardinal consideration during the period from the end of the Moscow Conference until my Harvard speech was to time properly the offer of U.S. assistance so as to assure domestic acceptance of the proposal. Our intention at all times was to "spring the plan with explosive force" in order not to dissipate the chances of U.S. acceptance by premature political debate. Little consideration was given to the European to our proposal since it was believed that they were sufficiently desperate to accept any reasonable offer of U.S. aid.
3. The greatest fear was of an adverse reaction from the Mid-West -- from "Bert McCormick and the Chicago Tribune". Originally I had planned to accept a degree from the University of Michigan in order to spring the "plan" in the heartland of expected opposition, however this ceremony was cancelled because details of the plan could not be worked out in time. My second decision was to reveal the proposal during my acceptance of a degree from Amherst on June 16th. However, a worsening of conditions in Europe and a full "realization of the dreadful situation in Europe" forced a stepping up of this schedule and I reversed an earlier decision not to accept a degree from Harvard on June 5th, 1947, in order to announce the U.S. proposal to assist Europe if they would work together cooperatively in devising means for making U.S. aid effective.
4. I took only a few intimate advisors into my confidence during the preparation of the European Recovery Program plan. I asked Kennan and Bohlen to present separate memoranda concerning means of meeting the European crisis. Kennan's was the most succinct and useful -- this was during the embryonic^{1871ed} of State's policy planning staff. I also drafted a paper reflecting my own views on this subject. Other than Bohlen and Kennan I consulted only Acheson and Lovett (at least these are the only ones mentioned -- REF) for fear that my deliberations would be "leaked". The June 5th speech was not completed until after I had left Washington for Cambridge. Kennan and others took exception to certain parts of

THIRTY THREE LIBERTY STREET
NEW YORK 45, N.Y.

December 2, 1948

Dear Mr. Hoffman:

As you doubtless know, I spent twenty-five days in Paris at Marjolin's invitation, participating in the O.E.E.C. discussions of the long-term programs. I enclose a copy of my report. This is, of course, only a first draft, and I hope I shall find time as soon as I catch up with my work here to expand it. But it indicates my general thoughts and impressions about the problem.

Sincerely yours,

John H. Williams *W*

John H. Williams

Mr. Paul G. Hoffman
Economic Cooperation Administration
800 Connecticut Avenue, N. W.
Washington, D. C.

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THE LONG-TERM PROGRAM

Report to Robert Marjolin, Secretary-General,
Organization for European Economic Co-operation

By

John H. Williams

53, Quai d'Orsay
Paris 7, France
November 23, 1948

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externally and into hiding at home, will continue; and France will threaten to divert increasingly to itself E.C.A. aid which should go to others.

In varying degree this is a problem for most of the countries, which have been suffering from open or repressed inflation. The striking contrast between the position of Belgium, an intra-European creditor, and that of France, the largest deficit country, seems to rest on little more than their relative success in combatting inflation. Britain's marked progress over the past fifteen months in correcting her trade balance has been closely related to her anti-inflationary measures, and the expansion of production in the Bizone since the currency reform last June is further striking evidence of the importance of this approach. Until inflation is overcome we cannot have the true measure of the balance-of-payments problem. But we must see also that there is here a two-way relation and that, again in varying degree, the pressures imposed upon the countries by their international position are a cause as well as a result of the internal inflation. Thus the problem must be attacked on both fronts, and the distinction between a "national income approach" and a "balance-of-payments approach" is really meaningless, except as it provides a clue to the comparative strength of the internal and external pressures in the different countries.

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For Western Europe as a whole the hard core of the problem is the external deficit resulting from the great structural change in its international position. The purpose of the Recovery Program is to reduce

that E.C.A. aid is included in investment, these plans will need to be examined carefully in relation to such factors as their possible inflationary effects both in Europe and in the United States, the level of consumption implied, the monetary, fiscal and direct control policies the programs will require, and the relation of investment to the changes in international trade and payments which constitute the goal of the Recovery Program.

In breaking down the aggregates, there should be a strong presumption in favor of shorter as against longer-run investment, and in favor of capital outlays that contribute directly to increased output and productivity as against (within the tolerable limits) those for housing and general welfare which contribute only indirectly. The most essential consideration is that the investment programs should be properly geared into the foreign trade and payment changes contemplated in the four-year programs. Preliminary inspection suggests that they include much uneconomic duplication, and are in considerable degree directed towards achieving national self-sufficiency rather than an integrated expansion of production and trade for Western Europe as a whole.

The object of the Recovery Program is to make the O.E.E.C. countries independent of "extraordinary outside assistance" by 1952/53, a condition aptly described as "viability". There has been developing in the literature an unfortunate distinction between the "national income approach" and the "balance-of-payments approach" to the Recovery Program. Actually, we need both, and the crux of the problem is the relation between the two. But as the discussion has developed, the emphasis in the former approach is put on the expansibility of production, and optimistic

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assumptions are made about the trade and payment adjustments which are expected to follow. Thus, if the structural change in Western Europe's balance of payments is the loss of roughly \$1 billion of income from foreign investment, this ought not to present too much difficulty if Western Europe's prewar national incomes, which aggregated some \$75 billion, are to be increased by anything like the amount contemplated in the four-year plans. If viability is not achieved, it will be mainly because internal inflation may prevent the expected growth of real income and the balance-of-payments adjustments that should follow.

This, to my mind, emphasizes one part of the problem to the virtual exclusion of the other. But it does indicate the need of analyzing the countries individually, as well as in the aggregate, to see where the balance of emphasis in each case belongs. It is a striking fact that France, which has less of a problem of structural change in her balance of payments than practically any other O.E.E.C. country, is now receiving, directly and indirectly under the Intra-European Payments Agreement, the largest amount of E.C.A. aid; and that Britain, which has had the most difficult international problem (unless it be the Bizone) and the one of greatest consequence for all the others, is now in effect sharing in the provision (or more precisely in the direction) of that aid. The main road to viability for France is through correction of inflation, and the chief question to be asked of the French program is whether the corrective measures outlined will be adequate and will be feasible. This is more a political than an economic problem, but until an answer is given, it constitutes a threat not only to viability for France but to the success of the entire E.C.A. program. While it lasts, French imports will remain abnormally high and exports abnormally low, and the flight of capital, both

THE LONG-TERM PROGRAM

Report to Robert Marjolin, Secretary-General,
Organization for European Economic Co-operation

By

John H. Williams

I appreciate having been invited to participate in the discussion of the Long-Term Program. I regret that my visit has to be so short, and to end at about the time the over-all analysis of the individual programs is getting under way. I particularly regret not being able to stay for the discussion with Richard Bissell.

Except for the major ones, I have not had time for detailed study of the individual programs, and my comments will be based mainly on Mr. MacDougall's Statistical Summary [C(48)218]. I shall bear in mind that what you have wanted especially from me is comment on the American aspect of the problem.

I

The programs begin with production and go on to international trade and the balance of payments. The over-all increase in production by 1952/53 to about 20 per cent over 1938, amounting to some 5 - 10 per cent per capita, does not seem unreasonable. But the investment programs whereby this result is to be achieved will need detailed examination. Only a few of the countries have developed national income accounting, but, so far as one can judge, the plans contemplate gross investment of 20 per cent or more of gross national product, a ratio that is high even compared with that of the United States in boom years. Granting that the European Recovery Program is essentially a program of investment, and

this deficit, which this year is costing the United States about \$5 billion, to the point where by 1952/53 such "extraordinary outside assistance" will not be required. This is a problem wholly without precedent in economic history. As one measure of its magnitude we may take the estimate given in the Survey of The Economic Commission for Europe last March, which showed a decline (for Europe as a whole) in "invisible" earnings from investment and services from about \$2 billion in 1938 (over \$4 billion at present prices) to a loss of \$.6 billion in 1947. For the O.E.E.C. countries, the Statistical Summary estimates that in 1938, 65 per cent of the imports were financed by exports, 30 per cent by invisible earnings and 5 per cent by reserves, borrowing, gifts, etc.; and that in 1947, these proportions had changed to exports 38 per cent and use of reserves, borrowing and gifts 62 per cent, with a net deficit of 4.8 per cent in invisible earnings.

As the programs indicate, there is no prospect that this great change in Western Europe's position can be covered to more than a minor extent by a recovery in invisible earnings, presumably chiefly from services. The main solution must be found among four alternatives:

1. growth of home trade relative to foreign trade, which for most countries seems definitely the wrong approach,
2. growth of intra-O.E.E.C. trade relative to external trade,
3. changes in the present and the prewar pattern of external trade, and,
4. capital inflow, in some form other than "extraordinary outside assistance".

As to intra-O.E.E.C. trade, the plans reveal that the volume, which in 1947 was about 60 per cent of the 1938 level, is expected to

recover by 1952/53 only to the 1938 level. In trade with the outside world, viability is to be achieved not by a contraction of imports (which despite the great loss of invisible earnings are expected to amount to 110 per cent of the 1938 volume, an increase corresponding to the growth in population) but by a large expansion of exports, to roughly 40 per cent beyond the 1938 volume and 125 per cent beyond the 1947 volume. According to the plans, this expansion of exports is expected to occur despite the present impairment of European East-West trade, and the chaotic conditions in the Far-Eastern trade on which Europe formerly relied to pay part of her trade deficit to the Western Hemisphere.

Without going into further details, which are covered by the Statistical Summary, the main basis of the solution of viability, as expressed in the O.E.E.C. programs, is a great shift in the present and prewar pattern of Western European trade as between North America and the Sterling Area countries (outside O.E.E.C.), accompanied by a very large expansion in the over-all volume of exports and a moderate expansion in the volume of imports. Exports to North America are expected to expand by 1952/53 to 40 per cent beyond 1938, which would mean nearly tripling their 1947 volume; and exports to the Sterling Area are to increase by 60 per cent over 1938, and about 76 per cent over 1947. Imports from North America are to be brought back to the prewar level, which would involve a decrease of about one half from 1947; and imports from the Sterling Area are to be increased to 20 per cent beyond prewar, or nearly 90 per cent above 1947. Though these constitute the main shifts, others that should be noted are that exports to South America are expected to increase to about 80 per cent above prewar, while imports increase about

one third; and that both exports and imports to "other countries" (China, Japan, Eastern Europe, most of Middle East, Spain) are expected to regain their prewar level, which would mean approximately tripling their 1947 volume.

If these expectations are realized, it is estimated that the O.E.E.C. countries will have a net deficit in 1952/53 of \$794 million, consisting mainly of a deficit of \$1,296 million to North America, offset by a surplus of \$664 million with the Sterling Area (with minor deficits to the rest of the world). The summation of the individual plans indicates that the countries as a group are reckoning on balancing this net external deficit by surpluses with each other of \$790 million, which is, of course, a manifest impossibility.

III

As I have said, the long-term problem is one of unprecedented difficulty. The presentation of the four-year plans provides only the starting point for a concrete analysis of the possibilities of its solution. The plans will doubtless have to be reshaped progressively throughout the four years, but the important consideration is that, if we are not to proceed merely ad hoc from year to year, the general character of the solution must be agreed upon at an early date, and the issues that it raises must be intensively explored.

It was to be expected that the individual plans would reveal numerous internal incompatibilities. To mention only some of the more obvious, Britain is planning a surplus to the Continent and vice versa, all are planning to export capital goods to each other, and the group as a whole is planning an intra-O.E.E.C. surplus to pay an extra-O.E.E.C.

One of the main questions, as we discuss Western European viability--how to get it and how to keep it--is whether this unbalance is a passing phase of world change, and on what time schedule further developments might be expected to correct it. One of the results of the growth of the American economy from within itself has been that over the last hundred years foreign trade has declined from about 10 per cent to about 5 per cent of United States national income (prewar), compared with percentages of 20 to 40 or higher for Western European countries. If this indicated only a growing tendency towards autarky for the United States, it might suggest that--following a period of reconstruction with E.C.A. assistance, and with war (and the threat of war) which has produced this last and greatest distortion of trade removed--there will be room for the rest of the world to achieve viability within itself.

But the four-year programs are counting on a substantial expansion of exports (even compared with 1938) to the United States as well as to the Sterling Area and to South America, and they expect to accompany this expansion with a great switch of Western Europe's imports away from the United States and to the outside world. The possibility of making such a switch has to be weighed against the fact that before the war the trends were precisely the reverse. From the 1870's until the last war United States imports of manufactures dropped from about 38 per cent of all imports to less than one quarter, while manufactured exports grew from one seventh of all exports to about one half. In the process, the United States has looked increasingly to the non-European world for imports, largely in direct exchange for exports, and the share of Europe in United States trade has undergone a secular decline. The effect of the

war merely hastened and completed the great change in regional relations which had been going on since before the first war. If we hope not merely to achieve but to maintain a balanced world, we must approach the problem in its broadest terms and plan to correct not only the immediate disparity but the forces which would otherwise continually recreate the conditions we now face.

The problem is presented by the growing predominance of the United States in the world economy, which has destroyed the nineteenth century balance between industrial Europe and the food and raw material producing outside world. Occupying a great and diversified land area, the United States has developed a rounded economy, on a high level of productivity and real income, to a degree never previously witnessed. It now produces over 40 per cent of the world's manufactures, but still relies predominantly on home supplies of food and raw materials.

The result has been to produce a cumulative unbalance as between the United States and the outside world, which the two wars and the failure to achieve a balance between the two wars have hastened and intensified. In the earlier, nineteenth century stages, when our development absorbed European labor and capital at better returns than they could find at home, and at the same time provided an expanding market for European manufactures in exchange for our food and raw materials, the results were mutually beneficial, and were part of the great dynamic changes which through their successive phases of colonization, commercial and industrial revolution, and expansion of complementary trade between Europe and the widening exterior, have created our modern world. But in its later stages it has presented a growing threat of chronic unbalance.

deficit. Undoubtedly the discrepancies will look even worse when they are broken down by commodities. At least in part, this should mean only that the countries have been planning separately, and have had no basis for an over-all view. The real test will come when coordination is attempted. But we may be sure that the internal tensions which will result from such an attempt will be severe, and the main purpose of the over-all analysis at this stage should be to carry conviction to all participants, both that the problem is grave beyond all precedent and that the solution arrived at is such as to offer the best hope of a successful outcome.

The United States is a participant, and will continue to be after 1952/53, whether the present Recovery Program is successfully carried through or not. The outcome will depend quite as much upon what we do as upon what the Western European countries do, and it logically requires quite as much an American four-year program, even though we are not given to planning in this sense. The focal points of the problem are the behavior over the next four years of the United States balance of payments in relation to that of Western Europe, and the behavior of both towards the outside world. These relations, together with any change in the proportions of intra- and extra-Western European trade, embrace all possible alternatives.

IV

To achieve a world trade pattern that will compensate for Western Europe's wartime loss of foreign assets and earnings is a huge task. This, however, is not the most serious aspect of the problem. Any really adequate solution must also take account of the prewar trend. The

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war has been to accentuate this shift, with the result that since the war the United States has been getting not only the bulk of its food and raw material imports from outside Europe but also a substantially larger part than previously of its manufactured imports, while the proportion of manufactures to total imports has diminished further.

V

This is the much discussed "chronic dollar shortage". It rests basically upon the great diversity of resources of the United States, its great land area, the comparative balance between industry and agriculture, and the rapidity of technological progress. One possible road to its solution is found by some economists in the expectation that with further industrial development, the United States will have to look increasingly outward for supplies of raw materials, and even foods; and that with agriculture and mining so much more subject to diminishing returns than industry (which should continue to show the opposite tendency), the terms of trade will turn against the United States, which will have to give up progressively more of its products in exchange for food and raw materials.

This kind of change in U.S. trade was already apparent before the war, which has much intensified it. Moreover, to ordinary import demands must be added our stockpiling program. But the E.C.A. memorandum ("Prospective International Transactions of the United States", dated October 7, 1948, prepared in response to O.E.E.C.'s questionnaire) which includes forecasts for specific commodities--including petroleum, rubber, copper, wool, silk, sugar, coffee, cocoa--does not indicate any pronounced

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increase of such imports between 1948 and 1952/53, partly because U.S. postwar imports of such products have been abnormally high in order to satisfy wartime deferred demands, and also, in the case of rubber and silk, because of the development of synthetic products at home.

The memorandum estimates that U.S. imports in 1952/53 will be about 50 per cent greater in volume than in 1948, and 65 per cent greater than in 1937 (a better prewar base year than 1938, since the latter was a year of depression), and will total about \$10 billion (at the 1947 price level, which is forecast for 1952/53). But imports of manufactures (including foods, semi- and finished manufactures) are expected to increase about 87 per cent beyond 1948, and imports of crude materials and foodstuffs only about 27 per cent.

Though it still leaves U.S. imports at only 4 per cent of gross national product, this is of course a forecast distinctly favorable to the prospects for achieving Western European viability by 1952/53; for it implies that the main source of growth of U.S. imports will be Western Europe, rather than the food and raw material producing areas; and the magnitude of the expected increase in imports from Europe in the E.C.A. paper agrees very well with that envisaged in the O.E.E.C. Long-Term Programs. If, also, U.S. exports to Western Europe should decline to the prewar level, as the O.E.E.C. programs contemplate, and if the exchange of Western European manufactures against raw materials and foods from the rest of the world should work out as the programs contemplate, O.E.E.C. viability would be attained.

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VI

The basic question, I suppose, is how much of this is reasonable expectation, on both sides, and to what extent the apparent dovetailing of the O.E.E.C. plans and the E.C.A. forecasts is an outcome of the awareness, on both sides, of the arithmetical necessities of the case.

The reduction of U.S. exports to Western Europe to the prewar level seems an indispensable condition of viability. It also seems to me not implausible that much progress over the next four years can be made in that direction. The great expansion of U.S. exports to Western Europe has been the result of war and of postwar recovery and reconstruction. It was made possible by lend-lease, then by gifts and loans, and now by the E.C.A. program. It cannot of course be merely assumed that it will end with the termination of E.C.A. aid, since this program was itself the result of economic and political compulsions; but it does seem reasonable to suppose that the least dubious aspect of the case for a successful outcome of the E.C.A. program is the reduction of U.S. exports to Western Europe. The right formula would seem to be that O.E.E.C. imports from the United States should be brought down to the prewar level, except as an excess of exports from the United States might be warranted by a continuing flow of American capital to Europe, in some form other than "extraordinary outside assistance."

That Western European exports to the United States will expand to the extent contemplated seems to me more doubtful. There are some good theoretical arguments in favor of such an outcome. Foreign trade has often been largest between communities with high income and purchasing power; the industrial areas have often been each other's best customers.

The demand for manufactured goods is elastic, and so great is the range and variety of products that there is much room for mutually advantageous exchange of such goods under the play of relatively slight variations in cost, quality, style, and other factors; and, in foreign trade as in home trade competition is the life of trade.

Assuming such an increase in production and in productivity as the Long-Term Programs envisage, it should be possible for the United States and Western Europe, as the two great industrial areas, to exchange their products on a substantial scale. If United States productivity runs somewhat ahead of that in Western Europe, the difference would be reflected in their different levels of real income and consumption; but in an expanding world, this ought not to mean more than a slower rate of progress in Western Europe than in the United States, and should in time make possible a scale of living well above the present or prewar.

But in practice, I think, such reasoning encounters rather severe limitations. As matters now stand, it would suggest an exchange of Western European light manufactures for U.S. durable producer and consumer goods. It has been much emphasized in recent years that the American tariff has been substantially reduced since the middle thirties, both by the rise of prices which lessens the specific duties and by positive reductions. This is true, but I am inclined to think the U.S. tariff still accords effective protection in just the range of goods in which Western Europe might otherwise compete; and I am inclined to agree with the E.C.A. memorandum that there is not much prospect of a decisive change in our tariff in the near future.

Another limitation is suggested by the fact that as younger countries embark on programs of industrial development--and this war, like others in the past, has been a powerful stimulus toward such development--they typically begin with the lighter manufactures, protecting them when necessary, and are likely to favor imports of the heavier producer (and the durable consumer) goods which they need for development (and greater satisfaction) but have no near-by prospect of producing for themselves.

Thus, with conditions and trade policies what they are in the world, the prospect for a very large expansion of Western European manufactured exports of the kinds in which she may now have, or could reasonably quickly come to have, a comparative cost advantage, and in which she would be permitted to give that advantage free play, seems to me dubious.

VII

It is interesting that the E.C.E. Survey of last March suggested as its solution of European viability that Europe should plan primarily to expand its exports of producer goods, with expansion of exports of lighter manufactures occupying a supplementary role. This is a more ambitious and longer-run approach. But it does at any rate, in my opinion, raise a basic issue, which should be examined intensively by O.E.E.C. and E.C.A., to bring out all its possibilities and implications.

It raises, however, again the question of balance in the world as between the industrial areas and the food and raw material producing areas. Certainly a main limiting factor on the O.E.E.C. long-term program

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will be the availability of supplies. If, as the E.C.A. memorandum concludes—I think quite plausibly—U.S. imports of raw materials will not in the next four years increase substantially, in view of their present abnormally high volume and the possibilities of substitution, that fact will be helpful to Western Europe during this critical period. But there is again the question of the longer-run trend. For the long run, I agree with the view that further expansion of the American economy is likely to increase its dependence upon outside sources of materials, and even foods. This suggests a repetition, for the United States, of the eighteenth and nineteenth century development as between Europe and the outside world. But it raises questions much more complex than any raised by that great, and on the whole harmonious, expansion.

Like the earlier experience, it suggests a growth of trade between the United States and the raw material producing areas. It suggests also, like the former case, a flow of capital from the United States to such areas. And it suggests that as the development goes on, these areas, or important parts of them, will undergo industrial development, though mainly, at any rate in the earlier stages, in the lighter lines.

But one source of complexity is that the United States, by reason of its great area, diversity, and rapid technological progress, will not turn outward so rapidly and surely; and that, as regards capital flow particularly, we may have recurrences (as in the interwar period, and even today) of flows in the wrong direction—and perhaps particularly from Europe. Also, the internal opportunities for investment of American capital will—I think one can assume, if the expansion of production and

trade is realized--compete more actively with external opportunities. It is a striking fact that even in the late twenties, when American foreign investment was of boom proportions, which have since been generally held to have been excessive and extravagant, it never exceeded \$1.5 billion a year.

I agree with the moderation shown in the E.C.A. paper as to the prospect for American private foreign investment by 1952/53; and beyond that it does not seem profitable to speculate. One question that needs intensive exploration is what steps the United States Government might take to foster private investment, along lines of partial guarantee or R.F.C. aid, as a means of building a bridge between the end of the E.C.A. program and the time when private capital could itself take over fully.

As I have already indicated, a further difficulty, as regards the effect on Western European viability, is that the flow of capital, as in the nineteenth century, is apt to be into the less developed areas, in search of supplies as well as markets. Unless by some means--and it is difficult to see what they might be--the capital flow could take the form of an outgo of exports from Europe to such areas, a return flow of supplies to the United States (and also to Europe), with the balance in some way righted by the Western Europe-United States interchange of goods and services, Western European viability would not ensue. This is not merely a question of "tied loans", but more basically of economic relationships and comparative costs. And one part of the puzzle would be that such a triangle, based on American capital flow to the non-European world, would suggest not an excess of U.S. imports from Western Europe, as the Long-Term Programs imply, but a not excess of exports, both to Western Europe and to the world as a whole.

to undermine consumption or break down the power to control inflation, by direct and indirect means; it must also be properly geared into the home and foreign-trade programs.

2. There are two possible ways of looking at the investment-production program in relation to home and foreign trade, with a view to achieving viability. Should Western Europe, recognizing the long-run trend adverse to its foreign trade position, plan to look inward and develop home trade (i.e., intra-O.E.E.C. trade) relative to external trade, or should it count on correcting, or at least mitigating, the adverse trend? The long-term programs embrace the second alternative, but the subject needs much further study.

Which would require the greater effort and the greater degree of intra-European integration, and which would promise the better results in terms of internal living standards and external viability? My own view, thus far, has been that the solution must be sought mainly through expansion of external trade, and in an expanding world; and that a movement in the direction of autarky for Western Europe would probably mean more integration rather than less, and prove both a more difficult and a less worthwhile task. One of the harshest realities is the dependence of Western Europe on external raw materials; and another, I think, is that her variegated manufactures would fare best, despite the difficulties I have cited earlier, in the broadest possible market. I therefore agree with the programs in their comparative emphasis on home and foreign trade. Nevertheless, one of the main tasks in scrutinizing the programs should be to see to what extent and in what ways intra-European trade can be developed. Up to now, it has been a main drag on the Recovery Program.

E.C.A. memorandum appears to lend considerable support to that solution, so far as the United States-Western European aspect of it is concerned. But as I said earlier, all are aware of the arithmetical necessities of the case, so that some degree of over-all unanimity, despite internal incompatibilities, is not perhaps very significant. What the Programs do accomplish, when put together, is to prepare the ground for a more intensive discussion of issues.

I am only more impressed with the extreme gravity of the problem. If there could be genuine agreement in this, both throughout Western Europe and in the United States, that would itself be a step forward; and it should result in a willingness to dig deeper into the problem than has yet been done. One must recognize, too, that the necessities of the time schedule this first year have inevitably pushed off the longer-run aspects of the problem, and from this point of view the presentation of the programs at this time is a real accomplishment.

But reaching conclusions will be a much harder and more time-consuming task. It will involve the work of many minds and the weighing of many interests. It will probably also involve the exertion of pressure, though I should hope mainly within Western Europe itself, once the character and direction of the required changes is more clearly seen.

I am inclined to be slow and tentative in reaching any conclusions as yet, and would prefer to have my statements regarded as questions rather than answers:

1. It seems generally agreed that a substantial increase in Western European production and productivity is an indispensable requirement for viability, yet the necessary investment must not be so large as

The conditions I have cited--United States industrial expansion at high productivity but with increasing dependence on external sources of supply, the whole development fostered by American capital--suggest an expansion of direct trade between the United States and the non-Western European world, and open up a prospect, if not of continued chronic dollar shortage, at best of a further phase of the same kind of difficulty, which has been an inability to pay with exports for what Western Europe must have from outside to maintain a desirable state of economic and political well-being. If that point had not been reached before the war, it was being approached, and Western Europe was beginning to eat into its external capital. Now the war, through the loss of foreign assets and income, and the disruptions of trade within Europe and with the Far East, has presented the problem in a severe form. If Western Europe cannot achieve the expansion outlined in the long-term programs in her direct trade with the world outside the United States, by reason of the fact that owing to its higher productivity and faster rate of advance, the United States preempts supplies and markets, the viability sought in the programs will not be achieved, or if achieved, by reason of our having reached a temporary plateau in raw material imports, would not thereafter be maintained.

VIII

What I have written indicates the main drift of my thinking both before coming to Paris and since having had this opportunity to study the Long-Term Programs and listen to the discussion. I am impressed by the fact that the Programs, even though prepared individually, do add up to, or at any rate point the way to, a kind of solution; and that the

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3. One of the hardest questions is the degree and character of Western European integration of production that will be required. This is surely one of the weakest aspects of the Long-Term Programs as they now stand. But it involves political as well as economic considerations. To what extent should the O.E.E.C. group of countries be regarded as an economic entity, and to what extent should we think rather in terms of its key units, in all their economic relations, with the outside world as well as within O.E.E.C.? These, to my mind, are by no means the same approach, and they constitute, I think, the most difficult aspect of the whole problem.

The British Program, which seems to me the best worked-out, is not a program of coordination with the rest of O.E.E.C., so much as it is a program for the trade of the United Kingdom, in all its manifold relations; and it is hard to see how it could be anything else. But, particularly in the light of what I said earlier about trends in world trade, it seems inevitable that if the British Program is carried out, it will be at the expense of the rest of O.E.E.C., in the same sense that American development has created a condition of unbalance for Western Europe as a whole. British success would then call logically for British aid to the Continent, analogous in function to our present aid. But it would, I think, diminish the over-all dimensions of the O.E.E.C. problem (including Britain), and may well indicate the most feasible line of attack upon the problem. To what extent, however, does this involve integration of the British economy with the Continent, and to what extent does it mean that integration should be mainly within the Continent itself? Similar questions are raised by the relation of the Bizone to the rest of the group.

4. There is in the background of this whole problem a large question about discrimination. I have analyzed the problem in terms of a cumulative bias favorable to the U.S. trade position and unfavorable to Western Europe, a bias beginning to be apparent even before 1914, and which the wars and the interwar experiences have intensified. Even without such a bias, Western Europe would have needed American aid for recovery. But the problem goes far beyond simple recovery from war, and in my view the E.C.A. program is now standing in the breach and attempting to correct the basic causes of unbalance.

The solution, if one is possible, turns on comparative productivity. But it seems to me that this will be a large, and probably also a long, job. And failing some further interim solution after E.C.A., through American capital flow or American import expansion (and I have tried to point out the difficulties for both), or through Britain's taking over some of the burden--which I think may be a part of any feasible solution--one is thrown back on trade or currency discrimination.

This is too technical a subject for discussion here. One important aspect is whether it should be directed against the United States or in favor of Western Europe, which are not necessarily the same thing. Another is whether it should operate through exchange-rate adjustments or through direct balance-of-payments control. It would need to take account not merely of the present unbalance but of the underlying trends.

My feeling is that, for the present, discrimination should be regarded as last resort, as the logical means of taking care of so much of the problem as we cannot otherwise solve within the time schedule. It

would get a bad reception in the United States, and for Western Europe it is too obviously a crutch on which to lean.

5. This paper is written under too much pressure to be anything more than tentative. I hope when I go home to do it better. And I would especially like to tie in some thoughts about the Intra-European Payments Plan, which seems to me an important first step toward an over-all solution, but of merely interim character.

One final thought is that it seems to me important not to be misled by what thus far has been achieved by E.C.A. and O.E.E.C., and by the favorable course of events this year. The record of achievement is impressive; and the extent of recovery this year, with the dramatic reversal in agriculture from 1947 and the marked progress in Britain and in many parts of the Continent, is helping to give us a truer measure of the dimensions of the long-term problem of unbalance. The correction of inflation in France would be another long step forward.

But recovery is merely the first phase, and it would not be surprising if it eventuated soon in a plateau, from which the real task would begin--a point beyond which further expansion in production could be only in response to genuine improvement in productivity; and trade expansion could count less on sellers' markets representing deferred demands and wartime accumulated funds to buy with. When these conditions are reached, we shall begin to get the true measure of the long-run problem.

B. E. L.

50 11 p.m.

This evening Mr. Paul Hoffman confirmed the regrettable news that he is stepping out of government service. Just recovered from a serious operation, Mr. Hoffman will depart his job as Chief of the Marshall Plan administration, probably to become director of the Ford Foundation.

Paul Hoffman will long be remembered in this capital, not only because he successfully administered the enormous task of resurrecting the economic civilization of half-ruined Europe, but because he became a kind of classic example of the businessman in government. A classic example because it was a completed two-way process. He demonstrated how an able businessman can make government work, and in the doing, government demonstrated how it can make an able businessman grow. There would be more regret at his leaving, were it not that he leaves behind, his less prominent but equally competent deputy, Mr. William Foster.

Many top leaders of business came to Washington to aid Mr. Roosevelt after these earliest New Deal days, when only the professors would come. Businessmen came readily to Roosevelt, because of the national crisis and because of his personality; and in spite of his apparent social philosophy. Mr. Truman's personal leadership has not been an equal attraction to men of business and he has complained often enough of the difficulty of getting them. Those he did get, or those who stayed, men like Hoffman, Harriman, Forrestal, Lovett or McCloy — these have been a special kind of businessman, with a different idea about government. They represent a little revolution in business thinking, which springs, strangely enough, from the New Deal days, and not from the war alone. They learned not to share the firm and often ferocious conviction of their business colleagues that the New Deal was a plot to destroy private business. Had they believed so, they would hardly have joined Roosevelt or his philosophical inheritor, Mr. Truman. Without trying

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1 October 1952

20. Regarding the emphasis on balance of payments analysis -- you had to get stability either through liberty or direct controls. The resistant political factors are a reality for example in France. Reforms, in France, had to have a large majority to pass.
21. Korea hit us just when we were approaching fiscal stability in France.
22. Italy was different because they were dominated by very conservative financial thinking, with tight control of credit at the sacrifice of social reforms. They controlled inflation by tight control of credit. It was tough to deal with. Especially when, on the political side, the popular front was voting with the communists.
23. In other countries, for example Norway, we had the opposite extreme. In Norway they were ready to control consumption. Norway was willing to build for the future instead of the present.
24. In France it has been a story of individualism; controls there just won't work.
25. In Germany, we made more progress after Clay left. "Lucius has to be the Czar."
26. On the decentralization of policy judgments toward OSR -- it was a "running battle". Washington was oriented toward Congress. OSR was oriented toward Europe. We wanted (in OSR) to build up reserves. Washington wanted to take them away -- under pressure from Congress.
27. From an overall standpoint -- there were remarkable results when you consider that there were only two years before Korea.
28. See the OEEC paper of June 1950 on productivity. It was really a revolution.
29. You have to judge the accomplishment in relation to two years -- for Korea changed the scene.
30. As regards the EPU, you can get a line on that from Lincoln Gordon, Marget, Tasca and others. The supreme opposition was from the Treasury. The EPU was really agreed upon by four people: Spaak, Cripps, Petsch and myself.
31. Jean Monnet did an important job in France -- especially in seeing the necessity for investment. The first Monnet Plan gave us a basis for a psychological running start in France.
32. Question: What about the use and techniques of American "intervention" or "leverage" in France? Reply: What developed was in some respects the opposite of what Congress wanted. There were some in Congress

to read their minds, I think it would be accurate to say that they understood that even the early New Deal was designed to preserve American capitalism, not to destroy it.

They were too able and successful as individuals to suffer emotional phobias about their future. And too successful, I think, to be any longer content with the rewards of business achievement. Whatever the private financial sacrifice involved, government office, with its fame, its power, its direct relationship to the fate of millions -- this was something more -- heady and challenging, and with a task well done, enormously satisfying to the best and deepest instincts in any men.

In a way, the success of men like Hoffman represents a curious paradox. In great part, he succeeded, because congressmen trusted him; and, in great party, they trusted him because he was a businessman. Had he been a government servant by career, with the same energy, ability and personality, they would not have trusted him half so much. Hoffman, the man of plain facts, satisfied one side of the congressman's nature -- his intellectual sense of reality. Hoffman, the ex-president of the Studebaker Company, satisfied the other side, the emotional side of feeling and phantasy.

It is a paradox. All great American universities teach courses in public administration, government service, and encourage young men and women to make it their career. Maybe, with the Congress in mind, they should be instructed, instead, to seek success in private business first, if they would have real success in government. But perhaps that process is beginning already, because of the hysteria on the loyalty issue. It is time for reflection when the head of the University of Chicago feels obliged to inform his students that he cannot advise them any longer to seek government careers, given the restrictions and humiliations now involved. Time for reflection, and perhaps, for a small prayer, in the interests of our future leadership.

Excerpt from broadcast September 25, 1950, Elmer Davis

Paul Hoffman resigned today as head of the Economic Cooperation Administration; and, as had been expected, the President appointed his Number Two man to succeed him -- William C. Foster, former Undersecretary of Commerce. Hoffman said his resignation didn't mean that he believes the usefulness of ECA is on the decline; on the contrary, he thinks the organization can now carry on the work he started. The President, accepting the resignation, said that Hoffman had handled wisely and successfully difficulties of world magnitude; and that is no overstatement. Think back three years to the time when the Marshall Plan was first proposed, two years to the time when it got going; it had to overcome considerable opposition here and considerable suspicion abroad. Its success would have been impossible without the able management which Hoffman has given it. Very few men around Washington have done a better job.

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Note on Interview with

GLENN CRAIG

20 August 1952

Present: Harvey Mansfield

1. Europe was caught in a circle that had to be broken. There was a need for capital accumulation. April 3, 1948 was about the time when it was possible, with aid, to develop internally some capital accumulation. For example \$300 million from the U.S. made possible investment on the continent of some \$6 billion in thermo-generating power -- over a period of 5 or 6 years; the aid was mostly in the form of thermo-equipment.
2. Again in the case of rolling mill capacity -- what was provided from the U.S. was only a fraction of what was needed yet it made an enormous difference.
3. A major theme in the industrial field then is the extent to which marginal aid made possible large European internal investment. On this see the 1950 program steel study, and similar studies on electric power and petroleum. Bernie Rothman can give you some good information on this. Statistics and reports division will also have some material.
4. Europe needs commodities -- food and raw materials -- in any case and has to export manufactures. Our influence is mainly on the character of production in Europe.
5. On the supply side of the organization, we are programmers from the standpoint of industry agriculture and transportation. We pay attention to what they should produce to earn dollars as well as to meet their internal needs; what they need in equipment etc.; and what we should pay for.
6. Our contacts with industries in the U.S. has not been through business advisory committees; this was decided against early. Our alternatives have been to use Department of Commerce channels with their normal contacts including business advisory committees and, for the rest to have an ad hoc approach.
7. Query: System for getting information on U.S. availabilities? For this we have had commodity specialists who know the field, who have made use of both official channels and industrial associations such as the iron and steel institute, the pulp and paper association, the tobacco association, the cotton association.
8. We have given a good deal of aid to countries in getting to sources of supply in the U.S. and in expediting matters for them.

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DEFINITION

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9. Our most important contributions in the industrial side of the organization, perhaps, has been in putting programs and projects into focus. What could be done? What were the most essential things in the particular countries which should be concentrated upon? How, in other words, could limited aid be used most effectively?
10. We also helped in "greasing the skids".
11. The field in which we made our greatest contributions perhaps was that of power.
12. In the industrial field there has been an immense amount of drive from the other side. ECA's role therefore has been more that of "shapers" than that of proding into action.
13. Query: The contribution of technical assistance to industrial developments in Europe? Reply: Mainly through stimulating interest, and getting technicians together.

Interview with

HAROLD STEIN

7 August 1952

at the Public Administration Clearing House Office

Room 220 Transportation Building, Washington

Present:

Harvey Mansfield

Rowland Egger (toward the end of the
interview)

Arnold Miles (formerly of Budget Bureau,
toward end of interview)

This interview dealt mainly with developments prior to the establishment of ECA, and relates particularly to Budget Bureau and State Department activities, discussions between agencies and with members of Congress, and the work of the Citizen's Committee for the Marshall Plan headed by former Secretary of War Patterson.

1. Things really got snarled up for a while in the Bureau of the Budget. Jack Blandford, as Deputy Director of the Bureau, had ingenious ideas, but was incapable of decisions. He was dealing with Lovett. Al Roseman kept calling Don Stone, who was on another job at the UN for two weeks, asking him to come back, or else the Budget Bureau would lose its grip. It did. Vandenburg and others didn't use the Budget Bureau approach.
2. Bob La Follette had a lot to do with the set-up of, and relations with the interdepartmental committees.
3. It was not originally intended that the Harriman committee would deal with the question of organization. But Vandenburg was interested in organization and looked forward to the Republicans coming in. He got the Harriman committee to working on the question of organization.
4. The committee for the Marshall Plan did a fine publicity job.
5. As to the legislation, we believed we could get it passed. Stalin was taking care of that. (Reference to the Czechoslovakia coup)
6. Vandenburg's choice for the administrator's position was Hoffman. The choice of Hoffman was the price that Vandenburg required for going all out in support of the bill. "Scotty" Reston of the New York Times really knew Vandenburg and his thinking in those days.
7. Bill Elliot and Win Riefler were in on the early talks relating to the Herter committee. Riefler wanted everything on a loan basis; he talked about the "therapeutic process by which loans are made". Ted Geiger knows the Herter committee angles.

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8. The committee for the Marshall Plan included Stimson (Page (?) represented him), Patterson, Acheson, Clark Eichelberger, Fred McKee of Pittsburgh, Wasson (?) of the Morgan firm, Governor Lehman, Frank Altschul, and a lot of others. John Ferguson, now with State, was at the New York office, which was the main office. I headed the Washington office.

9. We (the committee for the Marshall Plan) serviced national groups. We wrote testimony for the Farmer's Union (Jim Patton and others) and furnished testimony to other groups. We worked with Chip Bohlen -- who didn't know about Congress. On the whole, we kept rather separate from State and kept the relationship rather quiet, this being a citizen's committee. The committee wound up at the end of March.

10. One of the strong supporting groups was the National Cotton Council. I remember an appointment after their board of directors had voted to go all out on it. They had a delegation in every state who knew the key financial backers of each congressman. "Don't worry", they said, "we'll give it the same treatment that we did Taft-Hattley."

11. To sidetrack the Herter Committee line, we got out some materials which could be quoted. We talked to some congressmen etc. giving them materials which they could use.

12. The Lazzaro firm with offices in New York, London and Paris was friendly, although there were no formal connections. Their London man had connections with the Foreign Office.

13. On international legislation, there was an information service run by Wayne Coy's wife. It was a clearing house for women's groups interested in this kind of a legislation. The Marshall Plan committee subsidized them and gave them the line they could use.

14. Most of the lobbying was done by congressmen and senators who were sufficiently informed and sold on the Plan to sell others.

15. The CED and the National Planning Association got out supporting studies.

16. The Harriman Committee's role was important. It really settled minds in Congress. Vandenburg used to say "It's all right,..these are good people" etc.

17. The Marshall Plan Committee was also reassuring. It included a lot of prominent people including Republicans.

18. In fund raising for the Marshall Plan Committee, Harold Oran (?) did a damn good job. He drew on supporters already "chained" in the support of constructive international efforts.

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19. The State Department brought in Lew Douglas to run the show; he didn't do too well.
20. The Marshall Plan Committee helped to direct or straighten out the efforts of other groups. We worked with Michael Straight, women's groups and others.
21. On the whole, State's role was not very satisfactory. Everything seemed to be one dimension too big. The stuff they developed was so elaborate that Fran Wilcox complained that they couldn't leaf through it. The President's message was too long; no impact.
22. The selection of testifiers before the Foreign Relations Committees was done mainly by the committees themselves (Vandenburg and others) and their staffs (Wilcox and the others) -- the committee of the Marshall Plan helped in this.
23. Vandenburg recognized the low esteem in which the State Department was held at that time and wanted a separate agency.
24. On the question of counterpart funds, there were long discussions with the Herter Committee about the idea of American corporations handling the funds. The Marshall Plan Committee killed that one. I personally favored freezing it except for the 5% administrative expenses. Actually it worked out for investments etc. very well, although no one foresaw this at the time.
25. The Czech coup in March really speeded the action on the legislation. It brought in support from quite a few who had been on the left.
26. Acheson really went out on this. At times he got pretty tough. Once he said to a congressman (John Lodge (?)): "If you didn't talk so much and listened more, I think you would understand better what this is all about."

Note on Interview with

RICHARD M. BISSELL, JR.

19 September 1952

Others present:
Sam Van Hynning
Harvey Mansfield
Guy Horsley
HBP

Mr. Bissell's comments were based on the following tentative listing of main themes for the ECA history and an attached partial and preliminary outline.

Tentative listing of main themes:

1. Evolution in the conception and goals of European recovery
2. Purposes and technics of U.S. intervention and aid administration
3. Changes in national economic policies, institutions and programs in Europe during the Marshall Plan period
4. Impetus and steps toward European integration
5. Evolving rationale and experience in promoting the advancement of newly developing areas

1. I highly applaud your approach. I would minimize or compress the chronological record, which is available elsewhere, and concentrate on main themes.

2. How I can best help: To comment intelligently in the "whys" etc. I would have to refresh my memory greatly on the chronological record. With the chronological record and with main issues cited I could probably help you a great deal.

3. I also commend your selection of main themes. I believe that the first two are by all odds the most important. The third might be bracketed with the first. The fourth has a special importance in relation to policy yet it is also really a part of the first. At the same time in view of the emphasis placed on this objective, separate treatment would be justified. The fifth theme is quite appropriate for inclusion.

4. A further topic which you might wish to consider relates to organization and administration. I am thinking of the problem of management, relations with the European regional office, relations with the State Department and Embassy-ECA mission relations abroad, etc.

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5. The ECA administration was interesting from the standpoint of the habits and technics of management that it employed. I think you would find worthwhile the comments that Foster or Hoffman or I might be able to give you concerning matters of organization that distinguished this agency -- including question of relationships with the State Department here and abroad.

6. I am thinking especially, for example, of the concept of a regional office, its relation to the home office etc. We had here one of the first instances in which a regional office played so large a part. The successive heads of OSR felt that the European office should have a large role in policy formation, and in discussions and communications on this issue they used the theater commander analogy. Washington was reluctant, and wanted the main decisions to be made here, where there was contact with other departments, Congress, etc. Instructions from Washington to the missions went through Paris, but when dealing with narrower and more technical questions of allotments, balance of payments estimates etc. Washington dealt directly with the missions.

7. One illustration of the issues that we got into was the terrible mess over German allotments. I felt that OSR should not have been in on the act as much as it was. Another illustration was the case of Italy where there was strong disagreement between Washington and the European office on the question of cuts in aid over reserves.

8. Another illustration can be found in the coal issue, on which Harriman had strong feelings. He and Clay differed and the Pentagon was brought in to the picture. The issue was not one of objectives but a crossing of wires (Sam Anderson is well informed on this, also Lou Lister).

9. At this point Mr. Bissell referred to a volume of his correspondence, indicating that there were several such volumes, and he suggested that it might be good to read through some of this -- at some stage. Van Hyning referred also to the weekly digest.

10. Another feature of the organization which was interesting was the extent to which the top people kept up with, and a hand on, what went on. He referred to the extent to which Harriman and later Foster read all of important cables -- outgoing and incoming. Van Hyning referred to the way in which this close watch enabled Foster to know the score on issues during lunch with Under-Secretary Webb, a good deal better than Webb did. Mansfield: This meant that the organization was quick on its feet? Bissell: I think it was.

11. Concerning the European regional office, both Foster and Harriman became surprised at the size to which it grew -- 600 or so Americans only. It is true that the largest staffs worked on information and administration and did not get into questions of policy (Leland Barrows and, for the later period, Harry Fite can give you the story on the administrative side).

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12. By and large I believe that a major decentralization of administrative matters to the field is highly desirable. I believe we did a much better job on this than for example State. On administrative matters I think that we should have gone more from OSR to the missions, getting Washington out of that kind of detail. Also that more should have been devolved from OSR to the missions.

13. On the information job I believe that the regional basis is better, more economical, saving a lot of duplication.

14. In treating the European office it is important not only to quote gross numbers of people but also to show distribution by functions. I felt that the policy staff got to be much too big there. Despite some bitter quarrels, I believe that Harriman, Foster and Katz all came to the view b y a year or so ago that OSR had gotten out of hand as to size.

15. Concerning the Harriman appointment, Hoffman had to fight to get him; he had to persuade Truman and get his help in getting Harriman to agree. Hoffman worked hard to get him, so there was no question on that score. Knowing Hoffman and Harriman, one can see that it is inevitable that there should have been a certain amount of friction. Hoffman was I think more intelligently sensitive to U.S. opinion while Harriman was more sensitive to European opinion. The sensitivities of each were heightened by their location.

16. Harriman was used to being head of his own show. When he was head of the European office he would take some issues into his own hands. It doesn't come naturally to him to report fully to someone else, or to negotiate in behalf of someone at the other end of a cable line. By contrast, Lew Douglas often differed with State, yet his reporting from the Embassy was full and, though he argued like hell, he never took a major position without clearance. Harriman was not highly articulate and orderly -- hence some confusion. He had his habits of work and was annoyed by being checked up on this. This didn't issue in real quarrels. There was no lack of integrity whatever. And there was no appeal to the President over the head of Hoffman etc. The situation eased somewhat after Katz took over -- with Foster at the Washington end. All of the above relates to the regional office.

17. In conclusion, I believe that the line of command should not run on all matters through the regional office. It's too clumsy. Info copies should be sent to the regional office with an opportunity to intervene, in the sense of expressing a view, at any time; this is a workable arrangement.

18. An illustration of a situation in which a regional office was exceedingly useful was in connection with a mess that we got into in Austria. The question was, should a mission chief be changed. There

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was the question of the propriety of an employees behavior. Ty Wood went over from the European office. Having a senior person there who could do this kind of thing was very important.

19. It's a matter, then, of: (a) defining the regional offices field of activity; (b) getting the regional office out of business where there is not really a regional concern. The top people in the regional office should have some supervisory role -- but staff members should have a staff role and not get too much into all kinds of issues.

20. Under the first heading -- the first two being the most important and interesting -- (note: first heading is "Conception and Goals of European Recovery") I think it is most important to give attention not only to production, internal financial stability, trade and balance of payments goals, but also to relative emphasis on short-run instruction and long-run objectives. If I were writing such a record, it would have a fair amount of criticism in it.

21. Before the Marshall Plan began, there was a clear intention to try in a four year period to bring about some structural changes in Europe. It was recognized that the things that were wrong were deep-seated and that, therefore, deep-seated efforts would be needed to cope with them.

22. But in the early period, the emphasis was largely on short term objectives, and there was much emphasis on these short term objectives all through.

23. The only structural change which received much attention was related to European unification; that did receive a good deal of intelligent attention all through.

24. I still feel that our analysis of structural weaknesses was inadequate within several countries especially, that there was not enough attention to changes needed to make recovery permanent. I believe that among these structural changes we gave relatively too much attention to the issue of unification alone.

25. HBP: The obvious question then is -- what was lacking? what were the great omissions?

26. One thing that we did not really come to grips with was the problem of the relatively decadent managerial class and weak labor especially in France and Italy (not in North Europe, Germany etc. generally). If the Benton amendment and the accompanying relative to the use of counterpart for investment had come two years earlier, we might have done something important on that front. You may want to get hold of an airgram summarizing policy on this -- which was sent out in late 1951; Bob Oshins will have the story on this. This is tied in of course with the problem of technique of intervention through the use of counterpart. When we did get to this issue seriously, the amount of counterpart was limited and there was general pre-occupation with problems of defense.

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27. (On the same question of strengthening management) Bill Joyce's efforts to bring industrialists to the U.S. had some guff in connection with it but I still would stoutly defend the effort as a whole. Those who came over got not only from the industrialists, but also from the bureaucrats, some sound talk on free enterprise, and effective management (now the Ford Foundation is following up some of this in the form of encouragement to the formation of a kind of CED in Europe).

28. Another major problem was that of land reform in Italy. I believe that we should have been cruder and tougher about that.

29. Then there was the question of fiscal reform -- especially in the Latin countries. There were serious lacks in the tax structure and its administration. Many taxes were not properly collected and therefore higher and higher rates developed on those that were. It is true that we need to recognize the ingenious way in which sales taxes in France were made to have the effect of a graduated tax. In general, the problem of fiscal reform and its importance was recognized. Yet it is shocking that more was not done in four years on this problem.

30. Summarizing -- we didn't spend enough time in the first two years in analyzing more, almost from a sociological viewpoint, the structural changes needed.

31. I believe that your second heading -- "Purposes and Technics of U.S. Intervention" -- is most important and that this offers perhaps the most room for original contribution. Whether you call it "intervention" or "influence" or some other word, intervention was a real thing. Do you, to get France to do something, for example, take help away or give more help?

32. The Europeans couldn't really object to the basic objectives of increasing production, promoting trade, developing fiscal policies essential to financial solvency, etc.

33. I suggest that you formulate your views on at least the key questions and then discuss them a lot at the European end. The intelligent ones who were on the firing line are the ones to talk to.

34. Mr. Bissell indicated that, at some stage, he would be glad to meet with members of the advisory committee on this project, if a mutually convenient time could be arranged.

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Note on Interview with

HARLAN CLEVELAND

27 September 1952

1. I suggest that you include a treatment of the theory of internal organization, comparing ECA with say UNRRA. You'll remember ~~that~~ in UNRRA the battle between the supply side and the area side of the organization with the former coming out on top, with Roy Hendrickson leading that group. In ECA, Bissell insisted on centralized handling of programming processes, allotments etc. These were coordinated under Bissell. I remember emphasizing this to Bissell early in the game. Programming responsibility should be centralized, with controls in one pair of hands. The area or geographical units, not the commodity units, should, within the organization, be the focal points in making the overall determinations on amounts of aid to be recommended etc.
2. Decisions can then be based on a consideration of total effects on the economies of the receiving countries.
3. One of Bissell's great contributions was the concept that the important thing is not the volume of our aid, but the effects in Europe, and our influence in Europe upon ~~the~~ national economic and financial policies.
4. Thus programming was built primarily around aims with respect to national economic and financial policies -- aims considered in the light of the total picture within an economy -- and not primarily around what was done with our aid.
5. What about all of the emphasis on European initiative? And European and Far Eastern reactions to U.S. intervention? Reply: I think that the key in answering that question can be found in this fact -- that on the European side were people who thought changes in national economic policies etc. should be undertaken, with U.S. support and if need be, pressure, in order to achieve European viability and to make U.S. aid effective and durable. On the U.S. side were people who felt the same way. Many on both sides did not think in this way or in these terms. It actually worked out that the U.S. enabled finance ministers or others to develop programs and policies which they thought right. Intervention as it actually developed mainly helped people like Gaitskell of the U.K. and Petsch, the French Finance Minister, to do things they wanted to do. Question: In effect, this was a transference of ECA's "leverage" to the "right" people? Reply: Right.
6. Unless there is within the country a fulcrum (for example, a Petsch) it is likely that no amount of leverage will do any good.

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7. For example, internal leadership or a "fulcrum" was lacking in France on the question of labor organization. Thus no matter how hard our labor people tried to use leverage in order to encourage labor organization of a more enlightened sort in France, there were virtually no results.

8. Another illustration: That of counterpart in France, early in the program. There was a legislative ceiling on advances from the Banque de France to the government. The government would have had to go to Parliament for an increase in this ceiling, but this the government was most reluctant to do, even though they were nearing the ceiling. They approached David Bruce on the use of counterpart instead. Bruce said that he was willing to consider the matter but would need to consider a number of other things first, related to fiscal soundness, and thus to durable effects of the aid provided. Thus, by sitting on this bottleneck, we were able to be very influential in getting the French to do what they knew in their hearts should be done, and thus in saving the franc. The essence of this intervention was not Americans versus French, but some Americans and some French versus others.

9. Another illustration would be that of land reform in Formosa through the JCRR -- with the governor and the farmers themselves (with information as to their rights publicly posted) being the "fulcrum." Other illustrations also could be given of essentially the same phenomenon from the UNRRA period in China -- where T.H. Ho was the fulcrum.

10. Question: I've heard some criticisms of the ECA program on the ground that not as much attention was paid to structural changes in Europe as should have been. What is your reaction? Comment: One difficulty, of course, was the conception of "recovery" held by many -- a limited conception of simply getting Europe back on its feet. This conception was sold to Congress. The reality, however, was that Europe was not on its feet before the war. The recovery conception was therefore in part a mistaken conception -- but there it was -- and the feeling of many was that after four years we would go back to semi-isolationism.

11. One of the basic changes, of course, which needed more attention was that of the distribution of income.

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12. Another basic consideration/with the long-run approach is that we are faced with a relatively permanent state of affairs. Hence the need for dealing with structural problems.

13. In the long run, we need also to weigh our own commercial policies. When we do so, a major U.S. domestic issue becomes a major issue also in our foreign policy.

14. I would go easier than some might on criticizing ECA's failure to emphasize more than it did the structural changes needed. You might want to check the views of Ty Wood, and Hoffman as to what was politically feasible.

Dinner and Evening Discussion with

AVERELL HARRIMAN

1 October 1952

Present: Edward Litchfield
Harvey Mansfield
Kenneth Galbraith
James Fesler
Donald Stone
George Elsey
Miss _____ (Mr. Harriman's secretary)

1. Question on the origin and work of the Harriman committee.
Comment: The initiative was taken by Acheson; Marshall had a hand in it; Vandenburg was consulted and approved. Vandenburg suggested Bob LaFollette to help in the work. Lovett had a hand in the selection of the committee; also Bob LaFollette.
2. Disagreements in the committee were mainly over what our economy could afford. Important members were Horner, Konig, Nason, Merz and a few others. Disagreements in the committee were not too serious. Bissell did an excellent job for the committee and in preparation of the report. Query: Who brought Bissell in? Answer: I did. I had known of his work in war shipping with Lew Douglas.
3. The chapter on America's interest in Europe was done largely by Bob LaFollette.
4. When, after the Marshall speech, the Paris meeting was arranged, Bevin did a superb job of getting Molotov out of Paris -- by careful maneuvering. Bidault claims to have had a part in it. But Bevin had the courage to invite Molotov and the bluntness to get rid of him.
5. This confirmed my impression that Molotov is essentially a dull fellow. He could have killed the Marshall Plan by joining.
6. In the Congressional work here, Vandenburg was extremely skillful. He had much to do with bringing both Republicans and Democrats into line.
7. Some of the members were worried about whether we would be supporting socialism in Europe. I said frankly that I thought that before they confirmed me for the post of Special Representative, they should know my views on this. I told them that the Socialists are our best friends in Europe. There was a pause and then Vandenburg asked if there were any more questions.
8. Query: How soon did you begin to consider questions of social change, as well as economic recovery, in Europe? Answer: Immediately -- as soon as I got to Europe.

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9. We also placed emphasis on strategic stockpiles and the development of the overseas territories. I have always felt that we should a lot of impetus to raw materials production in the DOT's. I hoped that we could get more non-ferrous metals instead of gold.
10. The first days in OSR were informal. We had to move fast. I personally read every cable. When Bill Foster came in, he helped to bring order "out of my chaos".
11. The OEEC was set up as rather a looser organization than we wanted. The British didn't want to be treated as just another European country.
12. We had endless arguments with Bevin and others trying to convince them that their job was to help build a strong Europe; and that this did not change the relation of intimacy between the UK and the U.S.
13. There was a bitter discussion with the British on EPU. But when Cripps came through, it was whole hog.
14. The British really wanted to get Europe to join the sterling area.
15. Regarding social objectives, much baloney has been written. From the very beginning we made an effort to improve social conditions. At the same time we had to deal with fundamentals of the economy, with the expectation that the benefits would extend through the country. It worked in most countries except France and Italy.
16. The French political situation was and is an almost insuperable hurdle. It was hard to keep in balance social aims and basic economic policy. The political difficulties were particularly great in France.
17. Question: Could more have been done regarding tax evasion, which is deep seated in Latin countries? Reply: Not very well. We exerted constant pressure, but couldn't come out openly on it. Anybody saying he was for an American policy in his country would have gotten kicked out.
18. The whole fiscal system of France has in it the concept that you tax evidences of wealth. You can't change those things in a couple of months and we were dealing in split seconds. To tell the French that they had to change their tax system wouldn't have worked.
19. Korea brought in two important new conditions. One, it doubled military costs and two, it changed the terms of trade, raising the relative cost of raw materials. Without these two developments, I believe we would have seen remarkable results in Europe.

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This evening Mr. Paul Hoffman confirmed the regrettable news that he is stepping out of government service. Just recovered from a serious operation, Mr. Hoffman will depart his job as Chief of the Marshall Plan administration, probably to become director of the Ford Foundation.

Paul Hoffman will long be remembered in this capital, not only because he successfully administered the enormous task of resurrecting the economic civilization of half-ruined Europe, but because he became a kind of classic example of the businessman in government. A classic example because it was a completed two-way process. He demonstrated how an able businessman can make government work, and in the doing, government demonstrated how it can make an able businessman grow. There would be more regret at his leaving, were it not that he leaves behind, his less prominent but equally competent deputy, Mr. William Foster.

Many top leaders of business came to Washington to aid Mr. Roosevelt after those earliest New Deal days, when only the professors would come. Businessmen came readily to Roosevelt, because of the national crisis and because of his personality; and in spite of his apparent social philosophy. Mr. Truman's personal leadership has not been an equal attraction to men of business and he has complained often enough of the difficulty of getting them. Those he did get, or those who stayed, men like Hoffman, Harriman, Forrestal, Lovett or McCloy -- these have been a special kind of businessman, with a different idea about government. They represent a little revolution in business thinking, which springs, strangely enough, from the New Deal days, and not from the war alone. They learned not to share the firm and often ferocious conviction of their business colleagues that the New Deal was a plot to destroy private business. Had they believed so, they would hardly have joined Roosevelt or his philosophical inheritor, Mr. Truman. Without trying

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who wanted us to "sell America". The French are quite a practical people. It was important to explain the American interest to them. The idea that we had a lot of "leverage" was nonsense. We have pursued our own interest. Our best course was to persuade -- for good reasons. Actually, we couldn't cut off aid. The Kem amendment etc. was ridiculous. NATO was far more important than a few shipments to Russia. Our only course was one of negotiation and suasion -- plus an effort to handle ourselves in such a way that the governments would be able to get through their parliaments what was wanted. Any group branded as an American party would have been almost as impotent as a Russian party.

33. In Paris, David Bruce did an excellent job. He supported the Petsch-Pleven-Schuman group.

34. Question: Would you say that in order to exert what is often called "leverage" in a country, you have to have a fulcrum, in terms of strong local leadership, and that in this case such a fulcrum was provided by the Petsch-Pleven-Schuman group? Reply: Yes.

35. Over here (on the U.S. side) the labor group has supported the program most consistently -- down the line.

36. And two labor men have been mission chiefs -- Gross in Sweden, and Mike Harris in Germany, where he is still chief of our mission. Both have done excellent jobs. They have been effective in getting social results. This has been the first time that labor men have been in key posts in American representation abroad.

37. The CIO and the AF of L would be far more effective abroad if they worked together.

38. In general I would say that men have been more important than organization. On the one hand you had men like Snyder and Sawyer, and, on the other, men like Hoffman and Acheson.

39. I wanted more to be done with the dependent overseas territories -- as an outlet for European development, in order to get metals instead of gold for the U.S., and for the interest of the territories themselves. HBP comment: After you left Paris, OSR closed out its overseas territories office and reduced to a minimum the mission personnel working on the overseas territories; that made it more difficult to push the vigorous program in these areas. Harriman comment: I didn't know about that.

40. In Spain, the story about how Salazar rose to power is that a financial mess developed and he was asked to become finance minister. He said he would do so only if given full authority. At first they refused his terms and then later, when the situation got worse, they agreed. When I talked with him he said that one question was whether a democracy could do the unpopular things necessary to solvency.

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41. Question: (Don Stone): How about the social problem in the DOT's?-- Wouldn't it be both wrong and dangerous to emphasize the exploitation of resources only? Reply: Yes, of course.

42. If we had it to do over, I think we would emphasize more social progress all through. We would have seen more results in this area if we could have gone beyond two years. If we had known that we had only two years (before Korea), we would have emphasized more the social aims, including reforms in taxation, etc. Just what we would have done, I don't know. We didn't reduce communist influence in Europe as much as we had hoped. The core of the trade union movement in France is still considerably in the hands of the Commies. No one can say just how we could have made more progress. We just would have tried to tackle it and see what could have been done.

43. After Korea, there was too much emphasis on the military side, and especially since the establishment of MSA. The Congressional temper was that way.

44. Question (Don Stone): Could you name some of those who, in your opinion, had a broad common sense approach in carrying forward the program? Reply: Well, I would include Harris from labor, Clarence Ramsdell on steel, Sisler on power, Linc Gordon, Henry Tasca, John Lindemann, and some of the agricultural people.

45. On the organizational side -- I believed in ^{the} Board of Trade idea -- an agency outside the State Department. In other countries, there was a preference for not dealing through foreign offices, since they didn't want to appear to be under political pressure.

46. Coordinating things under the ambassador is o.k., but it's better to carry forward the practical negotiations through other channels than foreign offices and the State Department.

47. In Turkey, there was a strong effort to offset pressure for trade with the East. We put a lot of emphasis on coal and transportation -- on the elements needed to develop an undeveloped economy, as in the effort, as in the case of the overseas territories, being directed toward basic development.

Note: Mr. Harriman was still "going strong" -- but members of the group had to leave in order to make plane connections.

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Interview with
MR. PAUL HOFFMAN
28 January 1953

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CONFIDENTIAL

(At the Ford Foundation office, 655 Madison Avenue, New York City)

1. (An effort to confer with Mr. Hoffman before leaving for Europe, in late October 1952, was unsuccessful due to conflicting obligations on his part. Subsequently, he received our preliminary outline and a list of persons interviewed to date -- in the U.S. and in Europe -- and agreed to set aside time for a good long talk in New York -- HBP).
2. I've read your outline and think it's excellent. It's well thought out. I have no real criticism -- though it looks like it will be a long book. You have the right subjects, and the right emphasis on lessons gained. It progresses. Of course, everything depends on how you treat each subject.
3. There is still a need to promote an understanding of what SCA was all about. People still think of it as a great charity.
4. I agree with the idea of a critical approach. I was against a governmental report. This work should be a source.
5. (At this point I outlined our general approach -- looking toward a volume of 350 to 400 pages, addressed to a relatively wide lay audience with heavy reliance placed on interviews and key documents, etc. -- and I expressed a desire for Mr. Hoffman's criticism of this approach and for his continuing advice.) PH: "That goes without saying." It may be best if you can come to Pasadena at some later date, where we can talk with some of my records at hand. I am talking now from personal memory only, and it may be faulty; you'll need to check it.
6. Is the project now firm, so that no one could stop it? (In reply to this question, I referred to provisions in the contract which call for delivery of a finished manuscript to MSA, with MSA having a voice in any decision regarding publication, noting specifically the provision that the text would be submitted for review to Messrs. Hoffman, Foster, Harri-man and Bissell. I added that, so far as I knew, the project had not been discussed with Mr. Stassen.) PH: Maybe that's where I can help -- with Harold Stassen.
7. In the Marshall speech, he accepted the proposal. Many proposals are made. He took the responsibility of accepting and putting forward the idea. And he contributed the prestige of his name.
8. He threw out an imaginative new concept of foreign relations.
9. It was, you might say, a "looping forward pass", which Bevin "picked out of the air". To continue the football analogy for a moment, Bevin then called for a "huddle" with Biscuit, Molotov and others.

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and it was Molotov who walked out. They have no answer for this. Hence, it became clear from the Paris meeting that there was no chance to bring Russia into a constructive program.

34. Now to come back to your question. I came into this with a business background. I thought that if we in ECA came in with a new role -- as a kind of investment banker -- that would be a right approach. I had a strong belief that no plan imposed by a group of planners in Washington could possibly be effective. We could only ask each country to bring to us its own plan through the OEEC.

35. That is, in order to get an effective plan -- each country would need to bring in its own plan, and the OEEC would need to bring in a plan for coordination -- with us not imposing a plan on either.

36. I had learned from experience that if you want enthusiastic cooperation, you have to get those concerned to do the planning, or at least to participate in the development of the planning.

37. If, for example, in Studebaker, I believed that our body department was not as efficient as, say, that of Oldsmobile, I wouldn't go to the Oldsmobile company, study what they are doing and then give an order to the head of our body department. Instead, I would talk to our man, saying that they seem to be doing some interesting things in connection with body work at Oldsmobile, and I would suggest that he go and take a look. He comes back, and if he is any good, he will have ideas. He will say that Studebaker has developed this or that which is desirable, but of course it needs modification and improvement -- for which he takes the initiative for suggesting improvements, and he accepts the responsibility. In a larger way, we were successful in this done in Europe. There was development by each country of its own plans and proposals. It was their initiative and enthusiasm, and they took the responsibility for the plans.

38. In a section of the foreword to the Harriman Report, which I wrote, it was emphasized that only Europe can save Europe.

39. HBP: While in Europe, I gathered from several interviews that a good deal of importance was attached to the American request that the Europeans, through OEEC, develop their own recommendations with respect to the division of aid. Can you tell me the origin of that specific American proposal? Reply: I don't remember just how it originated. I believe that Harriman was over there at the time. I do know that I wholly supported the idea -- I believe this was in about August 1948, and I approved of it. (Check the time table on this -- HBP). It fitted in with my basic philosophy. The Europeans would have power to recommend; the decision would have to lie with us. If they couldn't work out such recommendations together, I felt, there was a grave question as to whether the Marshall Plan could be a success.

40. A second basic concept that I had at the outset was this: we saw that Russia was going to fight us. Some in Congress thought we should fight fire with fire; if they were going to prevent recovery in Western Europe, we should prevent recovery on their side. I was opposed to this on the ground that our means should be adapted to the end that we

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Dean Acheson. Vandenberg answered: "Mr. President, he can never be confirmed." He then went on to say that the Republicans wanted a business man in charge, and inferred (so I gathered -- HBP) that it would need to be a Republican. The President then asked: "Whom do you say?" Vandenberg replied: "I understand, Mr. President, that you have several lists of persons who have been suggested -- lists prepared by both Republicans and Democrats, and that Paul Hoffman is at or near the top of every list; there seems to be general agreement on him."

22. "It seems that I was the least obnoxious of the Republicans." I had been a Republican but not a partisan Republican; that is, I had a limited partisanship, as contrasted with a professional partisanship.

23. I had heard of this -- and I didn't want it. About that time, Draper called and said: Could you go to the Far East? I said I'd be delighted and it was arranged that I would be in Korea in late March. I thought that then I would be safe because as soon as the legislation was passed, they would want to name a man immediately, someone here and promptly available. But the legislation was delayed a week, so I was in Honolulu when it was passed. I had a call there from John Steelman to ask if I would consider the post. I asked if he would have to have an immediate answer and he said yes. I said that in that case I would have to say "no", for I would have to consult my family and business associates and think about it. Steelman asked how soon I could be in Washington to discuss the matter. I replied that I could be there Tuesday morning. But I added that I didn't think he ought to wait, and that frankly I was not interested.

24. I reached Washington on Tuesday morning and I saw Vandenberg right away. It said to him that I was going to say no -- but he said: "you can't do that" -- and he weakened my resolve to the extent of my not saying: "under no conditions".

25. I thought then that a medical examination might wash it out. I was exhausted after my trip and had a bad cold. So I asked the doctor to make an especially careful double check, telling him without details, that I was facing a proposition of an 18-hour-a-day type of job with the government. But the doctor called me up later and said: "I have good news for you. You are in excellent physical condition."

26. Mrs. Hoffman was concerned. I had promised to be in Pasadena for 1949. My personal plans were such that, in a way, I had my life laid out. There was a prospect of becoming Chairman of the Board of Studebaker -- and this would give me time to think about a lot of things in which I had become interested.

27. When I saw the President, I told him that I had never succeeded by employing anyone who didn't want a job -- and said that I didn't want this one. But he said that it was different in government. Here, he said, the best men are those who don't want a job. He talked about a difference in motives and, of course, there's something to it. We left it that I would think it over, without being definitely committed.

28. Then there came a press conference at which I was prepared to talk about my trip to Korea. But a question was asked as to whether I was

D-1111

going to take the job. I said: "What job?" I was trying to skirt around the question and indicated that I was there to talk about Korea. But Truman pulled a trick on me -- a good trick that I have used myself when a man is 90% committed. Someone brought into the press conference a notice that I had accepted the appointment. This left me way out on a limb -- without being able to withdraw without a public repudiation.

29. In talking to Truman later, I said: "There'll be a need to be able to call for the men needed to do this job. Truman said he would like to see a Democrat appointed to the Deputy position, and I agreed that that would certainly be reasonable.

30. For the Special Representative position, Truman had his own suggestion in mind. I said that he might be the ideal man, but that I didn't know him and didn't want to spend a year finding out. I said that perhaps there were not more than half a dozen men in the world who could qualify for that post, that we needed someone who knew Europe, and had "worked on the problem of bringing Europe out of the wilderness". Then I suggested, alphabetically, Lew Douglas and Averell Harriman. Harriman was chosen. (At this moment, the interview was interrupted due to Mr. Hoffman's having another appointment, and we agreed to resume in the afternoon.)

31. Question: In thinking about our talk of this morning, it occurred to me that I had never heard an explanation of the term "the Marshall Plan"; I have always simply taken the expression for granted; do you know whether the choice of this term was deliberate, and, if so, who originated it? Reply: No. I, too, have taken the term for granted.

32. HBP: You spoke this morning of the limited comprehension of what BCA was all about -- the widespread conception of it as a "great charity". There is also, of course, the conception of it as being only defensive against Russia. You spoke too of the need, as Special Representative, of a man who had worked on the problem of getting Europe "out of the wilderness". Now you, yourself, didn't move into this, at the outset, like a man who hadn't done some thinking about the problem and how to tackle it. Before we get into the question of initial organization and launching of the enterprise, do you care to say anything about your own thoughts at that time regarding the question of how to help lead Europe out of the wilderness?

33. I think I can answer that quite simply. But first, let me make another comment. I think we should never lose sight of the fact that there was a definite intention of including Russia. Only after Molotov walked out was it perfectly clear that Russia was not concerned with European recovery. HBP: From my talk with General Marshall, it would appear that he might have had a somewhat different conception. He spoke of it becoming pretty clear to him at the time of the earlier Moscow conference that Russia was not going to "play ball" -- and this seemed to be a definite factor in his thinking before the Harvard speech. PH: I don't remember the exact wording of that speech, but you may remember that he indicated in some way that his proposal was not directed against any nation. I have, of course, talked with him many times and I think he conceived of this as a kind of last effort to bring Russia into a cooperative system. You might check with him further on this. I believe that Bevin also had a great and high hope that this could become a cooperative enterprise. This has been our best answer to the Russians in their attacks on the Marshall Plan -- one that I have used repeatedly in speeches. The point is that Bevin in all good faith invited the Russians to come in,

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10. The details of that conference are very important. You should get that story fully. (Follow up)

11. Several things came out of that meeting. For the first time -- as a result of the Molotov walkout -- it was transparently clear that Russia was not interested in European reconstruction, but in chaos. It was the first time that I was fully convinced that Russia was against reconstruction and the evolution of a peaceful world.

12. The second great thing that emerged from that conference was the decision to form the OEEC.

13. The work of Oliver Franks at that time has never been adequately recognized. He was "the man of all people who laid down the principles that should guide European cooperation". The State Department's work et cetera was monumental. But it would have had no effect unless addressed to a program. The framework for such a program was set by Franks and the OEEC.

14. From a public relations standpoint, I think the work of the Harriman Committee was crucial. It was an appraisal with the participation of representatives of business, labor, agriculture and the public generally. It was well conceived, and was taken seriously.

15. The report was due largely to the tireless work of Dick Bissell; he was "it" -- pulling together a vast amount of material, selecting what was most important, and preparing an effective presentation for the committee and for Congress. "How he did it, I still don't know." On the technical side, Dick Bissell was the great figure.

16. The Herter Committee report was also most important. Without it, the program couldn't have gotten Congressional approval. It was a bipartisan approach.

17. Both of these reports were of monumental importance. (In answer to a question, Mr. Hoffman indicated that he did not attach anything like the same importance to the Krug and Nourse reports.)

18. All of this culminated in the 1948 Act. "It was probably as well-conceived a piece of legislation as was ever put on the books in the U.S."

19. "Vandenberg was the giant on the Congressional side. It was his leadership, both intellectually and legislatively, that led to the almost unanimous agreement given to the ECA program".

20. Thus three men stand out: Vandenberg on the legislation; Bissell on the technical side, and Franks for the development of a practical plan of European cooperation.

21. Question: Would you care to say anything about the circumstances surrounding your own appointment? Reply: Truman's choice was Acheson. Here's what happened as Vandenberg told it to me. Truman sent for Vandenberg and said to him: "Senator, I have the ideal man" and then he spoke of

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had in view: recovery. I believed that, in fighting communism in Europe, we would not be justified in using amoral or immoral means. We would lose all our moorings if we should adopt the Machiavellian philosophy that the ends justify the means.

41. Therefore, I insisted on confining ourselves to the recovery field.

42 "While there (with ECA), I never wanted to see our economic and military aid thrown in the same pot." If our efforts in ECA were purely constructive, I felt that we would get the support of elements, in many countries, that wouldn't have supported a military program -- and that we could attract those elements if we kept our program separate from the military. My viewpoint was somewhat different from that of Harriman on this. I am speaking of the period before Korea.

43. Later, I saw the need for coordination. Toward the end of '51, it was clear that the situation had changed and we couldn't keep the two things separate.

44. I had no interest, as "Fitz" may tell you, in a relief operation. He insisted that people needed food as well as raw materials in order to enable them to work. I had not been up against a situation where undernourishment kept people from having the energy to work. But I saw this myself when I went to Europe. So at the outset food was, in a sense, a tool. With it, of course, went raw materials -- that was important -- and tools with which to begin building up their production.

45. During my visits to Europe, I made two addresses before the CECEC which I think were significant. The first was on productivity; you might want to look that one up. After I had spoken, Cripps did a nice job of throwing cold water on what I had said; he gave the impression that here was an outsider, a novice, coming in -- who didn't know what it was all about in Europe. I slapped back. I said I was sure of one thing: that we couldn't move toward the goals we were talking about without trying.

46. There was great pessimism at that time among Europeans as to whether anything could be done.

47. I felt that if Europe could, during the period of the Marshall Plan go up by about 1/3 in its GNP, it would become a going concern. I put this forward as an objective to work for.

48. The second speech was on liberalization of trade. I was quite mad then about what hadn't been done about trade barriers.

49. HBP: As I see it, you had given to you in the spring of '48 one of the biggest responsibilities and challenges ever put on one pair of shoulders. How did you then see the job of taking this thing off the statute books and building up rapidly a going organization and operation? PH: "Of course I was appalled by it. No one had a blueprint or a pattern."

50. I decided first to get a group of people I could talk to -- who had done some thinking. Included were Dick Bissell, Ed Mason, a North Carolina man whose name slips me for the moment, and Tex Moore to help on the legal side and with personnel and organization.

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51. Then I concentrated on key people. I needed a deputy who would know his business, and who knew Washington; after careful inquiry, I chose Howard Bruce.

52. For Special Representative, I wanted either Lew Douglas or Harriman. I was flying high; I had to. I wanted someone in whom the President had confidence. He agreed to both of these appointments (Deputy and Special Representative) with some enthusiasm -- even though he had had other men in mind.

53. Then I got Bissell -- who as you know was very sophisticated about the problems we faced -- to go ahead in OK'ing the first European requests that came in.

54. Although the White House staff had ideas, I felt that I had to pick my own top people. In addition to Harriman, Bruce and Bissell, there was Alex Henderson as General Counsel. After some inquiry, I learned that "Fitz" was at the top in agriculture and we got him. Then, to handle the question of loans, we got hold of Wayne Taylor who had had financial and government experience -- with the Ex-Im Bank, etc.; there was a limited time in which to arrange loan contracts for whatever part of our aid was to be on a loan basis.

55. Then, after securing these and other top staff, I asked for their advice as to the men they needed.

56. I think we did about as good a screening job as could be done.

57. You'll remember that for 25 men here we could go up to \$15,000 a year (the so-called "excepted positions" -- HBP).

58. The top group selected represented one of the best balances ever achieved in government.

59. Then there was the task of selecting chiefs of mission. We made suggestions to Harriman and he made some to us.

60. Actually, Roger Lapham, for China, was my first mission chief appointment. To digress on that a minute -- you'll remember that there was no scandal whatever connected with our China operation, as there had been in connection with earlier relief operations. That was quite an achievement. We had a difference there regarding industrial aid. Stillman and Lapham wanted us to go ahead with it; they ~~that~~ ^{that} Fu Tso-yi was a real hope. But I was told by a high source in Defense that this was unrealistic, and that the situation in China was out of hand. So I ordered the industrial projects suspended and this saved a large sum which later was used for Formosa and Southeast Asia. I think Harlan Cleveland agreed with me on this despite strong objections from Roger Lapham and Stillman. If we had started in 1945 with an ECA-type approach, things might have differently.

61. The other mission chiefs chosen included: Finletter for the UK, David Bruce for France, Zellerbach, Nuveen, Marshall, Ballantine and Staley.

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62. John Lord O'Brien said he believed that ECA's was the best recruiting job he had seen in 80 years in Washington. You might check with him to see whether he still thinks so.

63. In screening, our idea was that the choices must reflect America -- including government, business, labor, agriculture, education, etc.

64. In getting labor participation we ran up against a problem. We had proposed that Clint Golden of the AF of L be attached as top labor adviser here, and that a CIO man be in the Paris office. But both groups wanted men in both places and we ended up with Golden and Jewell here -- both very good men -- and Shishkin of the AF of L and Harry Martin of the CIO in CSR.

65. For an agricultural country, such as Ireland, we chose an agricultural man.

66. Among our policy and administrative group at the highest level, I tried to inculcate the idea that the responsibility must be given to the Europeans -- that we couldn't do the job ourselves.

67. On the organization side, there was a great deal of debate, you will remember, about our relations with State. I was often asked the question: Are you really going to be free from control by this "terrible" State Department? But we never had any friction at the higher levels with State in those earlier days -- with Marshall, Lovett and Acheson.

68. Some Democrats thought that I surely must be building myself up and Truman took time to make up his own mind about this. He once said to me, smiling that he probably wouldn't be sitting in that chair during the next term but maybe I would. I said, "Mr. President, you have a job that I don't want. I don't like working 18 hours a day."

69. HBP: I'm interested in the exceptionally high morale within the agency -- especially during its first two years. Some reasons for this seem fairly obvious -- the broad support that developed for the program, the quality of leadership, and the way in which you and Bissell, for example, made staff members down the line feel they had important contributions to make. What other factors, do you think, were chiefly responsible for the morale that did develop? Reply: It started, I think, with the Marshall speech. The concept was a noble one. The people in the organization wanted to work for something worthwhile, and had the idea that they could contribute to keeping the free world free. It was a dedicated group. You couldn't want a better motive than that.

70. In Europe, there were dedicated groups too, with the leadership of men like Franks, Spaak, Stikker, Cripps -- and Marjolin within the OEEC organization.

71. Question: There seems to be a widespread impression in the U.S. that the Marshall Plan was something which we did "to" Europe -- rather than something in which the Europeans exercised a great deal of initiative themselves.

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Do you think of any instances in which you were particularly impressed by the initiative shown on the European side?

72. Well, there was the case of Stikker and what he and Hirschfeld (an extremely able fellow) and others did in Holland and what they contributed to the OEEC.

73. I remember my impressions during a talk with De Gasperi in Italy. Italy was doing an effective early job on currency stabilization. But I had been told that there was a tremendous amount of tax evasion, and that business was slowed down with excessive filling out of forms. So I said to him that I was most concerned about the problem of tax evasion. I can remember quite vividly his reply. He said: "I am sure we will have no real democracy until we have tax morality." But don't expect us to overcome this problem overnight. For 500 years, the only way a man could live here was by evading taxes. I can promise you that, year by year, there will be higher amounts and that we will be moving toward the goal of equitable taxes. Pella, then the chief financial officer in the Cabinet, did sharply increase the tax take each year after that, in addition to achieving currency stabilization.

74. I disagreed with Cripps -- yet there was no man more devoted or courageous.

75. The Socialists, of course, had their own approach. They wanted to do things on a controlled and planned basis for their own countries. But interdependence is an essential fact that has to be recognized if we are going to gain the larger goal of real international cooperation. I think that Socialist governments tend to take away from the individual the power of decision and, hence, opportunity for growth.

76. Question: In view of recent reports about the slowing down of European efforts toward integration, it may be especially important to try to understand why it was that the idea of economic integration gained as much momentum as it did during the first two years of the Marshall Plan. Do you have any special comment to make on this question? Reply: I would emphasize particularly the fact that we took a functional approach. Take for example the question of trade barriers. We made a great issue of it. In talking privately with ministers about it, we discussed the question in no uncertain terms.

77. I will be glad to read drafts as you prepare them and to ask "Milt" Katz and others to do the same.

78. HBP: May I ask for your advice on one question? The contract for this project was worked out before I was brought into it. It provides that the finished product will be signed, sealed and delivered before the end of August this year. I am working at it with only one assistant and two secretaries, plus voluntary help from people within the agency. PH: It can't be done. HBP: Not if we are to turn out a creditable product. For this reason, we shall need to raise with the agency, as we already have in a very preliminary way, the question of some revision of the present contract. PH: I think I can help you on that. I have talked

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 6, D. C.

OFFICE OF THE VICE PRESIDENT

August 16, 1948

Mr. Paul G. Hoffman
Administrator
European Cooperation Administration
Washington, D. C.

Dear Paul:

Confirming our conversation of yesterday,
I am enclosing copy of a letter which I have
received personally from Paris. I am not in
position to disclose the name of the writer but
I can assure you that he is both reliable and
well informed. Please consider this confidential,
as I would not want anyone other than you to know
that it had come through the Bank.

Sincerely,

Rob
R. L. Garner

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28 January 1953

to Harold Stassen before his trip to Europe and will be seeing him again after he returns. I can tell him that this is being developed in a scholarly way that he, as a former university president, would approve; and that the aim is to derive from the Marshall Plan experience lessons that will be useful to him in his work. I can suggest that he see you.

79. You might want to give some thought to asking Stassen to write the foreword for this volume. HBP: That is certainly a very interesting idea. The only reservation that I would have at this moment is that the Marshall Plan operation was, in an outstanding way, a bi-partisan affair, and I think it would be well to avoid any appearance or implication that it was otherwise. PH: Of course, Marshall has himself been something of a controversial figure. But perhaps it could be arranged for both Stassen and Marshall to be brought in on it in some way.

80. Let me know when I can do anything further to help on this.

HBP:fip
5 February 1953

Paris, 10 August 1948

Personal and
Confidential

".

"In brief, OEEC is falling apart at the seams. The only accomplishment of the organization during its entire existence so far has been this agreement on the Payments Committee. This agreement would never have been reached if it had not been for the visit of Mr. Hoffman and the feeling that some accomplishment would have to be presented to him in self-defense. The British objected to the proposal, fought it tooth and nail during discussions, tried to kill it at the final Council meeting, and seeing that they were alone were unwilling to be the only country to object. Consequently, they agreed in principle but seized on a qualification which we had introduced on the matter of controls, to reserve final approval. I have been personally advised by one of the British representatives that, this was a mere stalling tactic.

"The Italians who, along with the British, objected to the plan during its development, are now using every possible device to sabotage it in the phase of implementation. Their position, in essence, is a desire to pass on to other European countries the conditional grants given to the Italians because they are European creditors, not in the form of grants to other countries but in the form of loans. They have been advised that this position is clearly unacceptable, but have repeatedly raised it. Last week it was brought up again at the Executive Committee and, after long discussion a meeting was arranged with the Chairman of the Council, Chairman of the Executive Committee, Chairman of the Payments Committee, and the Italians to discuss this point. The position was again clearly stated that supplementary grants would have to be passed on in grant form. Losing their case here, the Italians proceeded immediately to the Payments Committee where they changed all of the estimates of intra-European payments so that instead of having a \$80 million surplus, they had a \$20 million deficit.

"As a result of the Italian action, and a similar unwillingness to compromise displayed by the British and the Scandinavian countries in particular, the Payments Committee was not able to accomplish what was merely a technical task, the preparation of reconciled table of intra-European payment. Without such a reconciled table, the payments solution, of course, could not be put into operation. Without the table, the job of OEEC in making allocations of dollar American assistance became more difficult. The failure to accomplish this technical job shows the apparent difficulty in OEEC, that is, that each country can think only of its own dollar assistance, and considers the program to be a means of shovelling out dollars with each of them trying to get as much as it can and the devil take the hindmost.

"A substantial part of the difficulty, at the technical level, arises from the fact that the OEEC is improperly organized. Instead of having a competent secretariat to do the technical tasks necessary, it necessarily turns to committees of national representatives for this work. The secretariat is definitely second-rate. Marjolin is, of course, an extremely intelligent, extremely capable, and very personable individual; he is not big enough for the job. The secretariat in general lacks force, initiative, and in many cases even concern about the responsibilities which they should undertake. The Council must, of

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s of
G. HOFFMAN

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course, be raised to the ministerial level, and the Executive Committee should be at the permanent under-secretary level, at the very least. Unquestionably, Mr. Hoffman has spoken to you about his feelings on this matter and the actions he took while here. I am not sure, however, that he did not get too optimistic a picture since the "cracking apart" became strongly evident only after he left.

"Perhaps I have become too pessimistic on the organization, but it does seem clear that a fundamental change in philosophy is required. There must be a feeling of a joint economic effort to take the place of the present attitude which is one of "get as much as you can under the pretense of international cooperation". How this change is to be effected is, unfortunately, rather difficult to foresee.

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B_File

September 26, 1949

The Honorable
Arthur H. Vandenberg
United States Senate

Dear Senator:

Your question as to whether the ECA appropriation might properly be reduced because British devaluation will make it possible for the dollar to buy more goods outside the United States can best be answered if we consider first just where ECA dollars are spent. During the first 17 months of ECA operations 68 percent of ECA-financed procurement was for purchases in the United States and an additional 13 in Canada. This leaves only 19 percent for expenditure in other areas. (The figure for August of this year was 18 percent.)

Obviously, the dollar will not buy more commodities in the United States than before devaluation. In Canada a 10 percent devaluation has taken place. However, it is significant that Canadian metals, for example, have already moved to the United States dollar price level which obtained prior to the devaluation of the Canadian dollar. Dollar prices of grain, on the other hand, have softened. It is not expected that the average of U.S. dollar prices of Canadian commodities will fall significantly.

Of the 19 percent for expenditure in other areas than the U. S. and Canada, well over half consists of sugar and petroleum. Sugar comes chiefly from Cuba or from other areas, in none of which devaluation is in prospect. Approximately half of the petroleum comes from Venezuela where devaluation is not likely. The other half consists of dollar oil from the Middle East where as yet there is no indication of price reductions.

I think it is apparent from these figures that no very large proportion of ECA dollar purchases will be made in areas where prices will have fallen because of the direct effect of devaluation and that therefore no very significant savings to the program can be expected on this account.

There are two other facts which should be borne in mind in considering the question you raised:

1. The amounts contained in the Appropriation Bill are well below the figures we submitted as our estimates of the requirements. These estimates themselves included substantial allowances for lower prices and in many cases the prices used were well below present prices.

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from which a further expansion of intra-European commerce will result. It has not been easy for Britain to offer to enter the European Payments Union as a full member. We have continuously exerted ourselves to do so and now believe that, with the help of our European neighbours and the Office of the Special Representative, we have found the way to reconcile our membership of the Commonwealth with membership of the European Payments Union to the mutual advantage and prosperity of both these great trading areas. Britain is the focus of the Commonwealth, the maintenance of which we believe to be vital not only to its members but also to the free world. And it is only as the focus of the Commonwealth that the strength of Britain can make its full contribution to European Recovery and unity. The long discussions which have taken place in Paris are evidence of the constructive and successful effort we have put forth to achieve full membership of the European Payments Union.

In recent weeks we gave an immediate welcome to the French initiative displayed in the Schuman Plan. The Prime Minister said in the House of Commons on 11th May:-

"His Majesty's Government will approach the problem in a sympathetic spirit and desire to make it clear at the outset that they welcome this French initiative to end the age-long feud with Germany and so bring unity and peace to Europe."

Mr. Attlee again made the British attitude plain in the House of Commons on the 15th June:-

"His Majesty's Government desire to help not to hinder in this matter, and the manner in which they can best do so will only appear after the negotiations have begun."

In matters of defence, Western Union was a British initiative. Britain took the lead in negotiating the Brussels Treaty and establishing an integrated defensive system for the common defence of the territories of the five signatory countries, Belgium, Britain, France, Luxembourg and The Netherlands. Under this system these five nations have made common arrangements for the build-up of land forces, backed by tactical air forces and a joint air defence system, and for the control and defence of vital sea communications. They are also cooperating in the production of equipment to support these forces.

Western Union has now become one regional element in the wider North Atlantic Treaty organisation. Britain has gladly played her full part in the wider integrated system and has, like the United States, backed up her willingness by making contributions of arms and equipment to her allies to the limit of what her financial and economic resources could bear without impairing her prospects of recovery. Since the end of the war Britain has contributed in the form of gifts, loans or sales at greatly reduced prices well over one billion dollars' worth of arms and equipment to friendly countries, mainly to Western European Governments and Greece and Turkey.

Britain has also contributed positively to the idea of European unity in supporting the Council of Europe. Britain took a worthy part

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in the discussions which preceded the setting up of the Council and has been concerned throughout that its constitution should enable the Council to operate with real effect.

Britain is a power with world-wide interests, responsibilities and commitments. Just as cooperation with her Western European neighbours and the vigorous promotion of unity in Europe is a vital necessity for Britain so her associations in the Commonwealth and in the Atlantic community are also vital. The foreign policy of Britain rests upon and draws strength from these vital relationships with Europe, the Commonwealth and the Atlantic community. It is the aim of British policy so to reconcile these relationships that they perpetually reinforce each other and by their complementary strengths add vigour and resource to the free world.

Yours sincerely,

Oliver Franks /s/

The Honourable

Paul G. Hoffman,

Economic Cooperation Administrator,

800, Connecticut Avenue, N. W.

Washington, D. C.

B File

BRITISH EMBASSY,

WASHINGTON, D. C.

21st June, 1950.

Dear Mr. Hoffman,

I am very glad to reply to your letter asking me for an informal statement on British policy in relation to Western Europe. These are my views as British Ambassador to the United States.

The policy of the British Government is to cooperate with other Western European countries and work with them for unity in Europe. This has been the policy of the British Government during the years since the war. It is so today. In virtue of history and geography alike such a policy is a vital necessity for Britain.

In carrying out this policy the British Government has worked and is working closely with other Western European Governments to develop and accomplish the common purposes which give increased strength and unity to all. The record shows the constructive and positive part Britain has played in the economic sphere, in matters of defence, and in the new political venture of the Council of Europe.

The British Government took the lead in drawing up the convention under which O.E.E.C. was established in Paris following upon General Marshall's speech. The British Government has since worked in one team with the other democratic countries which are members of the O.E.E.C. whether or not they differ in their domestic policies. This is the policy stated by the Prime Minister in the House of Commons on Tuesday June 13th, 1950, when he said:-

"The Government have always made clear, both at the O.E.E.C. and elsewhere, that they are fully prepared to cooperate in the closer integration of the European economy with other countries which hold different economic views."

In the work of O.E.E.C. we have cooperated fully in the intra-European Payments arrangements of the last two years and in connection with them have given further assistance in the form of credits to other participating countries. We were among the first to advocate and carry out the policy of liberalisation of trade in Western Europe. There has resulted a substantial freeing of trade between Britain and Western European countries. It is a matter of record that total imports by Britain from other O.E.E.C. countries were:-

£231 million	in 1947:
£327 million	in 1948: and
£448 million approximately	in 1949.

The European Payments Union which is now being worked out in O.E.E.C. will mark another major step in the freeing of monetary and trading conditions

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2. Due to the developing financial crisis, dollar earnings of the participating countries through exports fell off during the third calendar quarter to a point far below those upon which our estimates of dollar requirements were based. Certainly any small savings through lower prices outside the United States could not be expected to begin to make up for this adverse factor.

In my thinking about the question you raised, the above considerations would seem to me conclusive.

Sincerely yours,

((signed) Paul G. Hoffman

Administrator

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The Department of State

bulletin

Vol. XVI, No. 415

June 15, 1947

EUROPEAN INITIATIVE ESSENTIAL TO ECONOMIC
RECOVERY • *Memorandum by the Secretary of State*

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MEETING OF THE COUNCIL OF THE AMERICAN
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TECTION OF CHILDHOOD • *Article by Elisabeth
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THE FIRST ASSEMBLY OF THE INTERNATIONAL
CIVIL AVIATION ORGANIZATION • *Article by
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European Initiative Essential to Economic Recovery

REMARKS BY THE SECRETARY OF STATE¹

I need not tell you gentlemen that the world situation is very serious. That must be apparent to all intelligent people. I think one difficulty is that the problem is one of such enormous complexity that the very mass of facts presented to the public by press and radio make it exceedingly difficult for the man in the street to reach a clear appraisal of the situation. Furthermore, the people of this country are distant from the troubled areas of the earth and it is hard for them to comprehend the plight and consequent reactions of the long-suffering peoples, and the effect of those reactions on their governments in connection with our efforts to promote peace in the world.

In considering the requirements for the rehabilitation of Europe, the physical loss of life, the visible destruction of cities, factories, mines, and railroads was correctly estimated, but it has become obvious during recent months that this visible destruction was probably less serious than the dislocation of the entire fabric of European economy. For the past 10 years conditions have been highly abnormal. The feverish preparation for war and the more feverish maintenance of the war effort engulfed all aspects of national economies. Machinery has fallen into disrepair or is entirely obsolete. Under the arbitrary and destructive Nazi rule, virtually every possible enterprise was geared into the German war machine. Long-standing commercial ties, private institutions, banks, insurance companies, and shipping companies disappeared, through loss of capital, absorption through nationalization, or by simple destruction. In many countries, confidence in the local currency has been severely shaken. The breakdown of the business structure of Europe during the war was complete. Recovery has been seriously retarded by the fact that two years after the close of hostilities a peace settlement with Germany and Austria has not been agreed upon. But even given a more prompt solution of these difficult problems, the rehabilitation of the economic structure of Europe quite evidently will require a much longer time and greater effort than had been foreseen.

There is a phase of this matter which is both interesting and serious. The farmer has always produced the foodstuffs to exchange with the city dweller for the other necessities of life. This division of labor is the basis of modern civilization. At the present time it is threatened with breakdown. The town and city industries are not producing adequate goods to exchange with the food-producing farmer. Raw materials and fuel are in short supply. Machinery is lacking or worn out. The farmer or the peasant cannot find the goods for sale which he desires to purchase. So the sale of his farm produce for money which he cannot use seems to him an unprofitable transaction. He, therefore, has withdrawn many fields from crop cultivation and is using them for grazing. He feeds more grain to stock and finds for himself and his family an ample supply of food, however short he may be on clothing and the other ordinary gadgets of civilization. Meanwhile people in the cities are short of food and fuel. So the governments are forced to use their foreign money and credits to procure these necessities abroad. This process exhausts funds which are urgently needed for reconstruction. Thus a very serious situation is rapidly developing which bodes no good for the world. The modern system of the division of labor upon which the exchange of products is based is in danger of breaking down.

The truth of the matter is that Europe's requirements for the next three or four years of foreign food and other essential products—principally from America—are so much greater than her present ability to pay that she must have substantial additional help or face economic, social, and political deterioration of a very grave character.

The remedy lies in breaking the vicious circle and restoring the confidence of the European people in the economic future of their own countries and of Europe as a whole. The manufac-

¹ Made on the occasion of commencement exercises at Harvard University on June 5, 1947, and released to the press on the same date.

B File

turer and the farmer throughout wide areas must be able and willing to exchange their products for currencies the continuing value of which is not open to question.

Aside from the demoralizing effect on the world at large and the possibilities of disturbances arising as a result of the desperation of the people concerned, the consequences to the economy of the United States should be apparent to all. It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation, and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist. Such assistance, I am convinced, must not be on a piecemeal basis as various crises develop. Any assistance that this Government may render in the future should provide a cure rather than a mere palliative. Any government that is willing to assist in the task of recovery will find full cooperation. I am sure, on the part of the United States Government. Any government which manuevers to block the recovery of other countries cannot expect help from us. Furthermore, governments, political parties, or groups which seek to perpetuate human misery in order to profit therefrom politically or otherwise

will encounter the opposition of the United States.

It is already evident that, before the United States Government can proceed much further in its efforts to alleviate the situation and help start the European world on its way to recovery, there must be some agreement among the countries of Europe as to the requirements of the situation and the part those countries themselves will take in order to give proper effect to whatever action might be undertaken by this Government. It would be neither fitting nor efficacious for this Government to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of the Europeans. The initiative, I think, must come from Europe. The role of this country should consist of friendly aid in the drafting of a European program and of later support of such a program so far as it may be practical for us to do so. The program should be a joint one, agreed to by a number, if not all, European nations.

An essential part of any successful action on the part of the United States is an understanding on the part of the people of America of the character of the problem and the remedies to be applied. Political passion and prejudice should have no part. With foresight, and a willingness on the part of our people to face up to the vast responsibility which history has clearly placed upon our country, the difficulties I have outlined can and will be overcome.

Economic Aid to Italy

STATEMENT BY THE SECRETARY OF STATE¹

[Released to the press June 2]

The American Government naturally wishes every success for Prime Minister de Gasperi and the new Italian Government in the difficult tasks which they must face. There are many bonds between Italy and the United States, and the American people have a deep and friendly interest in the Italian welfare. We are happy to have been of assistance in rebuilding the Italian economy, and we shall continue to give aid to the Italian people who have demonstrated their sincere and abiding faith in democratic processes for the preservation of their individual liberties and basic human rights.

¹ Made on the occasion of the establishment by Premier de Gasperi of a new Italian Government.

There is no desire in the United States to minimize Italy's problems. But the Italians have already overcome many of their most immediate postwar difficulties, and I feel that they may recently have been underestimating their own capacity for reconstruction. Everyone who comes back from Italy remarks upon the vitality of the people, their will to work, and their very real attachment for democracy. The world has watched with admiration, and even surprise, the progress which the Italians have made thus far in taking up their lives again as a free people. I have every confidence that they will continue that progress and, with the help we shall give them, rebuild Italy as a peaceful and prosperous nation.

The Philadelphia Inquirer

December 2, 1952.

OFFICE OF THE PUBLISHER

Noted PCH

B File

Bill Hany
Noted EX
Muller
Puch

Mr. Paul G. Hoffman, Director,
The Ford Foundation,
914 East Green Street,
Pasadena 1, California.

Dear Paul:

Since my return from Europe I have given a great deal of thought to your good letter of October 13, 1952, which, as you know, arrived at my desk while I was abroad. After re-examining all the articles by Peterman and Klein in the light of your letter, I can understand your conclusion that their series, "Dungled Billions," suffered from lack of perspective regarding the whole job accomplished by the United States in setting Western Europe on its feet after the Second World War.

Obviously, since The Inquirer has always supported the objectives and the means that are inherent in the Marshall Plan, the series of articles was not intended as destructive criticism of the Plan's tremendous service to the Free World. The purpose of the series was to point out to American citizens that there had been some substantial defects in the manner in which certain funds allocated by this country had been utilized overseas.

Our objective was to dramatize the insistent and immediate need for checking in all particulars American dollars spent for European recovery, so that irresponsible or greedy individuals or groups might not be able to fatten either at the expense of American taxpayers or the needy in countries which were the beneficiaries of America's good intentions.

I believe publication of these articles had merit in that they directed the attention of members of Congress and of many private citizens to the enormous difficulties involved in the administration of such vast reconstruction endeavors. As you said in your letter, "The actual administration (of U.S. Aid) must be honest, realistic and efficient. That is how our aid programs should be conceived and that is how they should be administered." Peterman and Klein pointed out lapses in efficiency and in realism, cases in which the lessons of ECA had not been applied.

I still feel that our objectives in publishing "Dungled Billions" were honest and constructive. Upon sober reflection, however, and if I had it to do over, the articles would emphasize the overall benefits of the assistance plan, and would treat the isolated instances in which American funds were diverted as exceptions to the general rule.

We tried to maintain the proper perspective with an introductory note stating The Inquirer's enthusiastic endorsement of our Nation's aid policy. The introduction, I see now, was lost in the avalanche of words.

The Philadelphia Inquirer

December 2, 1952.

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NOV 19 1952 P.G.H. ECA

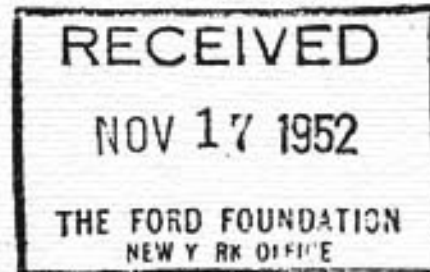
The Philadelphia Inquirer
EDITORIAL ROOMS

760 ans.

14 Nov. 1952

Noted PGE

Mr. Paul G. Hoffman
Ford Foundation
655 Madison ave.
New York City.




Dear Mr. Hoffman:

Thank you for your response to my letter of recent date; I'm sorry but in trying to catch you on the Coast, it went to a wrong address and was delayed.

It will be interesting to see how the new Administration follows through on foreign aid, what it will do to correct manifest errors and waste in certain quarters, and whether new yardsticks of measuring talent, ability, tact, and courageous adherence to the original Marshall Plan concepts, will be applied. I am confident that General Eisenhower will be up to such problems.

If there is any time that you feel you can use any of the observations I've made, or the opinion and comment I've collected -- much of which could not be obviously put into print -- I'm at your service, or the call of the Government authorities. I think we are all aiming at the same objectives; to get these affairs better in hand.

Most sincerely yours,


Ivan H. (Cy) Peterman

IHP-01

December 2, 1952.

I was glad to have your letter with its thoughtful statement of your views. I shall keep it at hand as a reminder that an undertaking such as the Peterman-Klein series should be carried through with careful regard to the whole perspective, and without overstressing objectionable features that constituted an actual, but relatively small part of the whole picture.

Sincerely,

Walter Annenberg
Walter Annenberg.

WHA:G

B File

B File

5 November 1952

Mr. Ivan H. Peterman
542 Netherwood Road
Upper Darby, Pennsylvania

Dear Mr. Peterman:

Your letter of October 25th just reached me, partly because it was misdirected to the Ford Foundation in Glendale, California. As a matter of information, our correct address is 914 East Green Street, Pasadena 1, California.

I am distressed by your statement that you wrote me personally while I was at ECA and received no answer. I had a hard and fast rule that every letter reaching our office was to be acknowledged within 48 hours. I am therefore at a loss to understand why we should have slipped in your case.

It is more than probable that if I had received your letter recommending that the Dutch professor be used in Holland, I would have answered you saying that your letter was being referred to Mr. Clarence Hunter, Chief of Mission in the Netherlands. I do not know Mr. Eugene Rachlis, but I do know the Chief of Mission there well. He is a former Vice President of the New York Trust Company, and anything but a left-winger. Perhaps I should add that one of the criticisms levelled at ECA when I was Administrator was that we had too many conservative Republicans administering important assignments.

There is little I can add to the letter I wrote to Mr. Annenberg in reference to the series of articles. I assure you my purpose in writing was constructive.

Sincerely yours,

Paul G. Hoffman

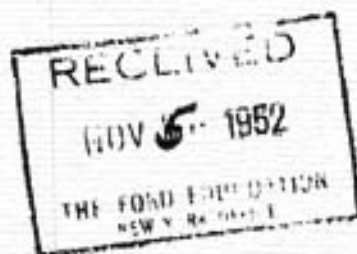
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cc: Mr. Walter Annenberg

B B F
B B F

542 Netherwood road
Upper Darby, Penna.

Oct. 25, 1952

Mr. Paul G. Hoffman,
Director Ford Foundation,
Glendale, Calif.

Dear Mr. Hoffman:

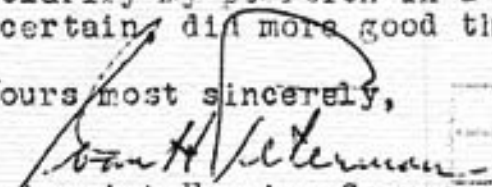
Some few days ago your letter to our publishers, addressed to Mr. Walter H. Annenberg, was shown to me for comment. In it I noted your expressed wish that the two authors of "Bungled Billions" might follow up with a series of suggestions to rectify some of the evils we discovered.

May I say in reply, Mr. Hoffman, that at least three years ago I attempted in a small way, to do something that might have averted some of the aforesaid shortcomings? Among other things I tried to place on the ECA speaking roster in Holland, a splendid, educated Dutch professor of history, whose leanings are not Left-Wing as are those of so many I've encountered in our Aid setup, but your public relations man in The Hague, Eugene Rachlis, formerly with Marshall Field's Pinko Chicago Sun, would have none of him, and the chain of command all the way to Paris HQ. backed him up. When I wrote to you personally, I received no reply.

I have written several times, as one of General Eisenhower's wartime SHAEF correspondents who saw the war at front line vantages, seeking to salvage some of the peace we have been squandering, but invariably nobody wants to listen. Unless they are recommended by some pip-squeak, ex-New Deal publications party, a disturbed, pro-American can get no hearing these days in Washington. When one attempts to write or speak, or even relay some first-hand matters such as those we uncovered on Austria and Greece, he receives the brushoff. I am speaking for Ike three times this week, and you may bet that I'm pulling no punches on the Spend-maniacs in Washington. If you people had rallied a few more of the solid American newspaper people to his train, and had less of the pro-Stevenson gang that has beclouded reports of this campaign, this 1952 campaign wouldn't have been close. I mentioned this to Mr. Summerfield, but as usual, no response.

I write this to clarify my position in a job, "Bungled Billions," that I feel certain did more good than harm.

Yours most sincerely,


Columnist-Foreign Corresp.

IHP/cl

PS..Incidentally, I found Rachlis in a new, responsible policy-making job in the Paris H.Q. my recent trip. He was always "out" when I called. Half the MSA posts are filled by Left-Wing, labor appointees. Is that America abroad -- in correct proportion? IHP

October 13, 1952

Mr. Walter H. Annenberg
THE PHILADELPHIA INQUIRER
Philadelphia, Pennsylvania

Dear Walter:

I have looked through the articles by Peterman and Klein in the Philadelphia Inquirer which you sent me. Obviously much work and talent went into them, and they contain some interesting observations. They also contain statements with which I disagree. It seems to me that they suffer from one over-riding defect. That is lack of perspective. Perhaps this lack of perspective is due to a subconscious desire to find material which would justify the use of the title "Bungled Billions." Apparently alliterative titles have a strong attraction for your reporters. You will recall that when you first spoke to me about this series you said that your men had come to you with the proposal that you run a series under the title of "Marshall Plan Millionaires."

The first four paragraphs of the first article (September 28th) report clearly and fairly how much has been accomplished. The articles then go on to point out shortcomings. The tone in which this is done, the distribution of emphasis and the title combine, as I have said, to distort the perspective. I think I can make this clear by an analogy.

Applying the same technique, if one were so disposed, one could write a history of the United States called "Bungled Years." One could begin by describing the enormous accomplishments since the founding of the Republic. These facts, standing by themselves, would reveal to the thoughtful reader the miracle which America represents in the history of mankind, in terms of spiritual range and opportunity, economic well-being and national power. But the significance of these accomplishments could easily be obscured by the writer, if he were so minded. He could describe this part of the record briefly. He could then go on to point out all of the shortcomings of which we are aware in our national life today -- inflation, corruption in high places, slums in our cities, the condition of the Negro in certain parts of our country, widespread tension and a widespread sense of insecurity, the fear of war, the assaults on freedom by the Communists and the lunatic fringe, etc., etc. He could then contrive to leave the impression that the 176 years since 1776 have merely led to all this, and so call it the "bungled years." He could so write it that each of the individual events,

taken by themselves, might be accurately reported, but the net impression would be wholly false.

If you look at the facts they report in the perspective of the total position of the United States in the world since 1945, I believe that you would come out quite differently. In my opinion, in that perspective, here is how the facts would look: The war left large sections of the world in a shattered state. This applied not merely to human bodies and physical property, but to human minds and souls and the institutions of society. In Europe, for instance, one could almost describe the condition of the Continent in August, 1945, as a society consisting of two armies -- the Western Allied and the Russian -- and millions of refugees and near refugees. It is important to get this straight. There was no transportation, except that of the military. There were no communications, except that of the armies. There was no monetary system except that of the armies. There was no banking system, except that of the armies. Trade, in the most elementary sense of an exchange of the products of the farms with the products of the cities, had dwindled to a terrible level. And there were no governments except those of SHAEF and the Russian Commandants in their respective zones. As for East Asia, its condition was certainly no improvement over that of Europe.

As if this weren't enough, both Western Europe and East Asia were subjected to a sustained and relentless campaign on the part of the Kremlin in its attempt to subjugate them, either directly or indirectly. In Europe and the Atlantic, America developed a comprehensive and carefully thought through policy for the area as a whole. One of the chief elements of that comprehensive policy was the Marshall Plan. Another was NATO. On the record, they have had great successes. The economic story is told in the first four paragraphs of the first article in the Inquirer of September 28th. Politically, the Communists were driven out of every government in Marshall Plan Europe. Their strength in every Parliament was sharply reduced. The Soviets' attempt at the economic blockade of Berlin was defeated. The Soviets' attempt at conquest through guerrilla warfare in Greece was defeated. The Soviets' attempt to divide and rule was met by the steps toward unity represented by the North Atlantic Treaty, the Organization for European Economic Cooperation, the Schuman Plan and the European Army. In the general atmosphere that resulted, Yugoslavia fell away from the Soviet orbit. I am not suggesting that we can claim credit for this. I am suggesting that there is doubt whether Tito would have dared to do it, and even greater doubt whether he would have been able to

make it stick, if it hadn't been for the policy followed by the United States in Europe.

This whole picture can be seen more clearly in contrast with the situation in Asia. On the record, we have been winning the cold war in Europe just as it has been going against us in East Asia. Of course, the cold war in Europe is not yet won. We have a long way to go to consolidate our position and a long way to go to extend it. This is illustrated by many of the difficulties described in the articles in the Inquirer. These difficulties and shortcomings indicate how much more remains to be done. They should not be used to obscure how much has already been done.

Second, I must add a word of explanation of why I have gone into the matter at such length. There are lessons to be learned from ECA about what to do and what not to do. I am afraid these lessons are not being consistently applied. Let me take a few minutes to make this clear. What are these lessons? Very briefly, these: For a U.S. aid program to be successful, it must be based upon a carefully thought through determination of solid U.S. interests in the area of the world which is involved. From this solid judgment of U.S. interests, we should develop a set of objectives. A comprehensive set of policies must be developed for the area as a whole, aimed at these objectives. The nations in this area, who are the potential recipients of aid, should make their own appraisal of the situation, and come up with their own objectives and their own policies. We must be satisfied that these are consistent with ours. Not the same, you understand, but consistent in the sense that their interests move them in the same direction in which it is to our interest that they should move. Based on this, those nations must come up with a solid program of self-help and mutual aid. That program should have a terminal date as a target. We must then consider how and in what degree U.S. aid fits into that program, with that terminal date. The actual administration must be honest, realistic and efficient. That is how our aid programs should be conceived, and that is how they should be administered. This means that there is a real quid pro quo for our aid, not in the superficial sense of a specific exchange, but in the deeper sense that it is conditioned upon the execution of a concerted program which promotes vital U.S. interests. And the organization and administration must be honest, realistic and efficient.

Let me make it clear -- I claim no credit for the development of these principles. They were hammered out in the collaboration between Secretary Marshall and the Republican Eightieth Congress, and a very large part of the credit goes to the magnificent leadership of Arthur Vandenberg in the Senate and Chris Herter in the House. I believe I can say that ECA was administered in accordance with these principles. This is why the Marshall Plan was universally recognized for the success it was. That is also why it was perhaps the only aid

10-13-52

- 4 -

program which did not wind up with a hangover feeling and a bad taste in the mouth on the part of both the giver and receivers. It might be an interesting piece of reporting to take particular cases where you think that aid programs have gone astray, and appraise them against the factors described above. I would be prepared to bet that in any case where you may find that things have really gone wrong, you will find that the lessons of ECA have not been applied.

Now, there are people who want to defend and support all aid programs, and who want to draw upon the success and prestige of the Marshall Plan to help them do it. As a result, they lump the Marshall Plan together with other aid programs. On the other hand, there are people who want to attack all aid programs, and who try to get at the Marshall Plan by lumping it with other aid programs which did have some of the quality of operation rat hole. As a result, the lessons of the Marshall Plan are tending to be lost.

I believe Peterman and Klein are honest and competent reporters. I wish they would take on a new task and devote to it their obvious talents, namely, that of making clear to our people the steps which must be taken if we are to achieve a peace with justice and freedom. The present series of articles, I believe, take us away from that goal.

With cordial regards.

Sincerely yours,

MK/PGH.VKP

B File

16 B & C

EDITORIALS

Balance Sheet of 'Bungled Billions'

To give its readers a first-hand picture of the way their money, as taxpayers, is being spent in Europe, The Inquirer sent Columnist Ivan H. Peterman and Alfred M. Klein on an extended tour of investigation. You have been reading their report, entitled "Bungled Billions," the final installment of which appeared Friday.

This is a challenging series of articles. The facts, figures and wealth of dramatic highlights make it essential for all of us to understand clearly what is going on. "Bungled Billions" has not been a muck-raking chronicle. Rather, it has given both sides of the foreign aid picture, told of the good that has been done as well as of the mistakes which have been made.

In the light of this series we should sum up, as briefly as we can, our country's balance sheet on these "Bungled Billions." So let us first look at the assets.

What gains have there been from the approximately 17 billion dollars we have poured into Europe? They are substantial.

- 1.—Revival of a wrecked post-war European economy through Marshall aid;
- 2.—The consequent steady rolling back of Soviet influence in those countries;
- 3.—Victory over the Reds in Greece.
- 4.—Major progress toward Western European unity, with the Schuman Plan for pooling coal and steel as a base;
- 5.—Launching of the North Atlantic Treaty Organization, and substantial progress toward a Western European Army;
- 6.—Encouragement of private investment in Europe, further stimulating recovery.

These are, as any fair-minded person will admit, major achievements. Had we not given aid, it is almost certain that most of Western Europe would be under Stalin's heel today.

Having examined the assets, now let us sum up the liabilities. They, too, are by no means negligible:

- 1.—During the past two years particularly we have been getting hostility instead of good will; our reporters found too common in

Europe the gag: "Don't make the Allies mad; they might not take our money!"

- 2.—Too many countries are not doing their share, either in economic ways such as collecting their taxes, or in a military way such as providing their proper allotment of arms and manpower;

- 3.—Too much trade with the enemy still goes on.

- 4.—Too much U. S. aid has been spent at the top, with too much of that siphoned off by chiselers and crooks so that far too little has trickled down to the common people.

- 5.—Our Allies, for political purposes, have concealed from their citizens much of the aid we have given;

- 6.—Most important, there has been an increasing loss of the climate of cooperation which our aid is designed to foster so as to keep the free world united.

What all this adds up to is not a case against continuing U. S. aid, but a case for making it more effective; for finding more trained men to handle it (Peterman and Klein stress our lack of experienced foreign personnel); and for insisting that our allies do their share.

There is need for more rigid policing of aid to make impossible such scandalous cases as that of the Greek "Napoleon" who waxed fat on ECA contracts, and then cheated his own country on taxes; of the ratholes in Austria by which the Russians take wealth out almost as fast as we pour it in; of the outrageous nickel deal by which a Dutch importer bought nickel from the U. S. and sold it back to us at a \$127,000 profit.

And as the howls of M. Pinay suggested last week, it is time for an end to the French dragging of heels, and the use there of Americans and U. S. aid as political scapegoats.

One could go on and on. But if these articles help to bring about a more aggressive, more enlightened and more effective handling of our foreign aid program, this newspaper will feel richly repaid for its efforts to get this story to the American people.

It's not time to end our foreign assistance. It IS time to end the bungling.

OCT 22 1952 P.G.H.

The Philadelphia Inquirer Noted MK

*Muller Kutz
PWA*

VICE PRESIDENT

October 20, 1952.

Mr. Paul G. Hoffman, Director,
The Ford Foundation,
914 East Green Street,
Pasadena 1, California.

Noted PGH

Dear Mr. Hoffman:

I want to acknowledge your letter addressed to Mr. Annenberg under date of October 13th, 1952. As you may know, Mr. Annenberg is presently in Europe and will return here on November 3rd, at which time your communication will be placed before him. In the meantime, I have taken the liberty of summarizing your communication in a report which I recently sent to Mr. Annenberg.

I think you will be interested in the editorial which appeared in our Sunday newspaper yesterday, upon the termination of this series.

Sincerely,

Joseph First
Joseph First.

JF:L

MEMORANDUM

DATE 11/4/52

TO: Mr. Hoffman

FROM: MILTON KATZ

Noted PGH

1. There's much to be said for the editorial.

2. Note that the adverse criticism bears particularly on the last two years. Twenty months ago - February 19, 1951 to be exact - I wrote to the head of each OEEC delegation to explain that the previous basis for the allocation of aid had been terminated, and that aid would therefore be calculated in terms of the new program. In my view, that marked the de facto end of the Marshall Plan, which you and I had foreseen and discussed during your farewell trip the previous autumn.

3. The third paragraph from the end of your letter is especially relevant.

MKZ

October 2, 1952

Mr. Merrill Panitt
Administrative Assistant
Office of the Publisher
THE PHILADELPHIA INQUIRER
Philadelphia, Pennsylvania

Dear Mr. Panitt:

Thank you for your letter of September 30th with which you enclosed the first three articles of a series entitled "Bungled Billions." I know Mr. Hoffman will be most interested in reading not only the first three articles but the others to follow.

Sincerely yours,

Secretary to Mr. Hoffman

VKP

B_File

OCT 2 1952 PGH

The Philadelphia Inquirer

September 30, 1952.

OFFICE OF THE PUBLISHER

Mr. Paul G. Hoffman,
The Ford Foundation,
914 East Green Street,
Pasadena 1, California.

Dear Mr. Hoffman:

Before he left for Europe, Mr. Walter Annenberg requested that I send you daily the instalments of "Bungled Billions," a series of articles currently appearing in The Philadelphia Inquirer.

It had been Mr. Annenberg's hope to hold up publication of the series for a period of weeks, but because of other correspondents collecting similar material on the European scene, he preferred to release it forthwith rather than be scooped. I enclose the first three articles, and will continue to send them to you daily.

Cordially,

Merrill Panitt

Merrill Panitt,
Administrative Assistant.

MP:G

B File

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to capture the minds of men? Are not the tools provided by the Act gravely insufficient when we ponder the fact that the great Chinese wall was first punctured by bribery, not by battery? In framing effective foreign assistance and mutual security programs must we not take fully into account that peace can be assured only when enough government leaders and other important people in all nations reflect in their personal lives those moral values which produce stable and democratic institutions - when a sense of individual and national responsibility begins to be felt for human misery wherever it may be found - when we act on the belief that all war is "civil war"? As a statute the Act is perhaps bound to be dry and legalistic in language but aside from a few sweeping generalities it gives no hint that the American people in concert with peoples throughout the world have something to offer as a preferable alternative to communism.

4. During the past year ECA has made a significant start in getting several countries in South East Asia to organize programs aimed at better development and distribution of their resources, at strengthening the ability of their governments to govern justly and efficiently, and at building morale and stability. The task of ECA has been to set in motion such training, demonstration, production, and other activities which will unlock the economic potential of each country and tap latent capacities of the people to improve their lives. These activities relying upon technical assistance processes, supplemented by small grants for tools, equipment, and other essentials are relatively inexpensive compared with the needs of the industrialized countries of Europe. But the dollars required, and more important, the chain reaction of new ideas, changed ways of doing things, and increased hope of a better life are the key which unlocks the door of friendship and solidarity with the West.

Noted PGH

Trip ECA
reaching not

October 15, 1951

Noted PGH

Thurman
Plan

PERSONAL

Mr. Donald C. Stone
Director of Administration
Economic Cooperation Administration
Washington 25, D. C.

Noted MK

Dear Don:

Your letter of October 10th reaches me just as I am about to take off for a trip East. I am taking your memorandum along and expect to have it read before I reach Chicago.

Strangely enough, I find working for the Foundation almost as strenuous as working for ECA.

Sincerely yours,

Director

PGH:VKP:MLC

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October 10, 1951

*Will not
be any.*

Mr. Paul G. Hoffman
Director, Ford Foundation
914 East Green Street
Pasadena, California

Dear Paul:

We were all disappointed that you could not attend the breakfast two weeks ago in honor of Bill Foster. Your presence would have added a great deal to the occasion and might have helped relieve a bit of the blue that was resting on ECA.

I started to write a letter to you at that time regarding some of the ominous developments in connection with Mutual Security legislation. There was no leadership in the Executive Branch producing any real coordination or effective presentation in regard to the Committees on the Hill. The Committee Members were confused for this and a variety of other reasons and it seemed to me that your presence for a couple of days might have helped greatly in promoting action along more constructive lines.

I was especially concerned at that time that the new agency would be given such a weak mandate and the Defense Department would be clothed with such a comprehensive responsibility that it would be impossible for the new agency to exercise any real influence on Defense even in connection with economic aspects of military assistance.

This aspect of the legislation came out remarkably well even though the organic structure is somewhat bizarre. However, there are some implications in other aspects of the Act which are truly ominous. As I reflected on these a week ago Sunday, I decided to point them up, and the attached is the result of personal reflections with my wife's typewriter. Perhaps you will find them of some interest and use.

We surely do miss you here.

Yours sincerely,

Donald E. Stone

Donald E. Stone
Director of Administration

Attachment

DRAFT

Donald C. Stone
October 4, 1951Memorandum

IMPLICATIONS OF MUTUAL SECURITY ACT AND REQUIREMENTS FOR ACTION

Considering the amount of confusion and lack of understanding both in the Executive Branch and on the Hill in regard to the enactment of the Mutual Security Program, we can be thankful that the Act came out as well as it did. The Act assures that other than military factors will be brought to bear on policies and actions of the Department of Defense which have important effect on the economies and peoples of the countries with which the U.S. is working, and while somewhat bizarre, the organizational arrangements can be effective.

However, the legislation threatens to destroy, after June 30, 1952, the economic foundations of our foreign policy and the progress which this country was beginning to make in knitting the free countries of the world together not only military-wise but also politically, economically, psychologically, and spiritually.

1. The bill allows a continuation of past and existing MCA activities until June 30, 1952, but thereafter would restrict operations narrowly to direct support of military programs. The assumption implicit in its wording and explanations would lead to the conclusion that the U.S. believes peace and well-being and the achievement of a united democratic world will come from military strength.

2. In the struggle between USSR and the non-communist dominated countries (which are only partially united), military strength can do no more to save the U.S. and the democratic way of life than to buy time. Time to do what? Time to do those things necessary in cooperation with

other countries to make democracy more appealing than what the communists offer and to give a vivid demonstration that life can be better if persons and nations work together in a brotherly spirit for their common good. This means joint economic development programs, extensive technical exchange on a two way basis, cooperative information activities to get the truth about the Soviet Union and communist techniques across to people everywhere, more intense activity to get common understanding of the simple elements of the democratic way of life and what individuals can do to build a better world for themselves and fellow men. It means also doing those things on the one hand which will reveal the horror of life when brutality, deceit, corruption, privilege, and hate become the instruments for social action and, on the other hand, those things which will symbolize and demonstrate what life can be when friendliness, concern for the other person or country, humility, honesty, and other ingredients of the democratic way become the guiding principle. This all calls for mobilizing private as well as public resources, institutions and individuals to carry on a global offensive of good will, understanding, and mutual betterment, using all the "tools in the kit" useful for this purpose.

3. In this connection the functions to be performed under the Act give an impression that security and peace can be assured by military might. Force tends to become the primary instrument for waging peace. Does this not overlook the fact that the Soviet Union has brought into its orbit millions of people without firing a shot? Have we not failed to benefit from the lessons we should have learned in China - that ideas can't be stopped with bullets - and that it takes more dynamic ideas - not armaments -

The Philadelphia Inquirer

September 30, 1952.

OFFICE OF THE PUBLISHER

Mr. Paul G. Hoffman,
The Ford Foundation,
914 East Green Street,
Pasadena 1, California.

Dear Mr. Hoffman:

Before he left for Europe, Mr. Walter Annenberg requested that I send you daily the instalments of "Bungled Billions," a series of articles currently appearing in The Philadelphia Inquirer.

It had been Mr. Annenberg's hope to hold up publication of the series for a period of weeks, but because of other correspondents collecting similar material on the European scene, he preferred to release it forthwith rather than be scooped. I enclose the first three articles, and will continue to send them to you daily.

Cordially,



Merrill Panitt,
Administrative Assistant.

MP:G

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The Act cuts the ground from under these efforts after June 30, 1952 and advises the people of Asia that we cannot be counted on for carrying through systematically our stated intentions, that we are not really interested in improving conditions of life, that we are interested only in their help for our defense against Communism. This is what the Communists have always said, and they will surely make the most of it.

5. The stated intention of the Act to stop economic programs of this type where speed is of the essence in creating better conditions, political strength, and a will to resist aggressive pressures carries with it the conclusion that Point IV activity does not have short range purposes. In light of the aggressive encirclement and infiltration of Communism not only in Asia but also in the Near East and some parts of Latin America it is timely for a rethinking of U.S. economic and technical assistance - whether called Point IV, TCA, ECA, MSA, or some other name. While South Asia is today a testing ground of all that the Western World stands for, the whole free world is at stake.

6. With respect to South East Asia, it is important that we realize that we have completely failed to put across to Congress and to the public (as well as to other agencies of the Executive Branch) the nature, purposes, and potential of the operations ECA has launched in that area, how they differ from previous kinds of aid, how in their distinctive setting they hold as much promise compared with other methods that the Marshall Plan held for Europe -- and at only a small fraction of the cost.

7. The doctrine, developed in a straight line by the Truman Administration since 1947, that security, peace, and in fact victory in our

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contest with communism, must be built upon sound economic foundations, thus seems headed for the junk pile. The policy initiated in the Truman Doctrine and continued in the Marshall Plan, aid to Asia, and to a degree in the Point IV program, has received what is in effect a death sentence. Ignored are the definitive plans of action advanced by various members of the Congress, by the Executive Branch, by the Rockefeller Committee, Gordon Gray, Mr. Hoffman's Committee on The Present Danger, and others who have studied the problem. Economic and technical assistance appears to be considered important in the bill when it contributes to military build up, yet even here it is reduced to a homeopathic dosage for Asia under a new Point IV label at the very time its purpose must be to bring about internal economic strength in a country, to help make life worth fighting for, to create a positive answer to the communist appeal, and establish a mutual confidence and moral framework for collaborative action. Let us ponder over the effectiveness of our past homeopathic program for winning Iran to the cause of democratic cooperation, and the consequential cost in dollars alone if Iran is lost to the U.S.S.R. Oversimplification as it may be, a comparison of Iran with the successful approaches in Greece and Turkey is also useful.

8. These implications of the Act, plus the idea that the job can be done by reducing a thin line of administrative employees (slightly over 2,000) by 10% "for the good of the order", points sharply to the need for a powerful Executive Branch strategy and performance in the next six months if the U.S. is to succeed in its stated purposes. I urge therefore that we do everything we can to develop the issues, to frame constructive proposals, and to encourage consideration of the problem by the various agencies concerned, by the Executive Office, by members of Congress, and others. A principal job

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of the new Director of Mutual Security should be to get the facts out in the open and through the process of discussion and consultation to frame the concrete and convincing measures adequate for the extremities in which this country finds itself. These include:

- (a) Policies to be advocated by the President in the State of the Union Message and in other appropriate ways;
- (b) Refinement of objectives by the NSC and making these objectives lucid and known;
- (c) The drawing up of a plan of Executive Branch action by the Psychological Strategy Board;
- (d) Preparation of drafts of amendments to the new Act for the consideration of the Executive parties concerned and the Congress;
- (e) Formulation of basic country and regional programs adequate for the situations and the operational plan (including budgets) to put the programs into effect;
- (f) A more intensive information program including a planned campaign of speeches and articles by agency heads, a great increase of factual reports, and the promotion of public discussion and consideration by groups of all types.

Meanwhile the government should drive ahead without let-down in the South East Asia operations and in activating the South Asia programs. Policies and objectives, techniques and practices, in all U.S. economic and technical assistance programs need refinement, elucidation, and effective application, with a maximum of inter-agency cooperation. Through assessment of what has worked well in actual practice the objective should be to institute those measures which will have maximum economic, social, and psychological impact.

Economic Cooperation Administration
Office of the Special Representative in Europe
Paris, France



REVIEW OF EUROPEAN PRESS REACTION TO MR. HOFFMAN'S PARIS VISIT
AND OEEC NEGOTIATIONS, 25 OCTOBER THRU 10 NOVEMBER 1949

Prepared by the
Press Intelligence Unit
Editorial Research and Analysis Section
Information Division

1 December 1949

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NEWS COVERAGE OF OEEC NEGOTIATIONS

Once the negotiations of the OEEC had started, and particularly in the days after Mr. Hoffman's OEEC speech, there was hardly a European newspaper which did not devote at least one daily article to the talks at the Chateau de la Muette. Coverage varied, of course, from one country to the other. In Great Britain the press concentrated most of its space on direct quotations from Mr. Hoffman's speech while in both France and Holland preoccupation was more with the nationalistic aspect of the negotiations. This tendency was largely motivated by the fact that both the Irish Foreign Minister and the French Minister of Finance had submitted concrete proposals to the OEEC to substantiate the idea expressed by Mr. Hoffman. It was pronounced in France since Mr. Maurice Petsche's proposal came at a crucial moment of the negotiations at the Chateau de la Muette and was actually used as a basis for the OEEC agreement, whereas Mr. McBride's suggestions were put forward right at the beginning of the conference and did not deal specifically with the problems raised by Mr. Hoffman's address. The bulk of the press coverage on Mr. Hoffman's speech in the London dailies came on 1 and 2 November.

The Daily Herald (Labour) printed only one short report, on Tuesday 1 November, under the heading "Europe Tackles Hoffman's Plan". It reported that Mr. Hoffman had praised Western Europe's progress in the last fifteen months but had

warned the Marshall Aid countries earlier today that unless their dollar earnings rose "dramatically" by 1952, the trade balance would spell disaster.



On the next day, the Government paper did not mention the OEEC talks at all.

The largest coverage, on the other hand, came from the independent London Times. On 1 November it devoted almost half its economic page to an article under the heading "Economic Integration of Seventeen Nations. Mr. Hoffman's Call to Europe." The article first made particular reference to the presence of Herr Blucher, German OEEC Representative, and then went on to give extensive quotations from Mr. Hoffman's speech. By way of comment the article said in part

Mr. Hoffman has concentrated on one objective, the integration of Europe. Even the closing of the dollar gap, though it enjoys a certain priority in his speech, takes up far less of its space. Some other proposals that were expected have not been made. There is no suggestion that the ECA will itself carry out the division of dollar aid, or that the OEEC should prepare programmes for the coming

INTRODUCTION

When it was announced towards the end of October that Mr. Hoffman, Administrator of the Marshall Plan, would come to Paris before the end of the month to address the OEEC, the European press at once began extensive coverage of OEEC problems. Liberalisation of trade, European economic integration, the removal of trade barriers, the creation of a European Monetary Fund, and the repartition of Marshall Aid were typical editorial subjects.

General coverage of these items was in many cases accompanied by speculation on what Mr. Hoffman was expected to say in Paris.

As soon as Mr. Hoffman actually arrived in Paris and the talks began, there was scarcely a major European paper which did not devote at least one daily article to the negotiations that were going on at the Chateau de la Muette. Interest in the negotiations was keen and genuine, although the attitudes taken by various participants - as reflected by the leading newspapers of their country - were not always uncritical.

Mr. Hoffman's statement was given considerable space; the London papers, in particular, quoted long excerpts verbatim. Most papers limited editorial comment at this stage, but the Paris dailies, even during the negotiations, strongly summarized Mr. Hoffman's speech and added considerable comment. The fact that at a critical point of the negotiations a French proposal was submitted and adopted was reflected largely in the French and the Belgian press.

Editorial comment on the result and the meaning of the negotiations was carried on over a long period after the end of the talks. At this later stage, many European papers commented the concept of economic unification with that of European integration as manifested in such projects as the Council of Europe and various regional customs unions.

The notion of "Fritalux" which had been approached with great scepticism earlier was now taken quite seriously by that part of the Parisian press which regularly reflects attitudes of the government.

The communist press attacked the talks as being the reflection of an American "ultimatum" or "Diktat". Editorial comment and analysis of this problem can still be found in many European papers at this time.

COMMENTS ON MR. HOFFMAN'S INTENTIONS

As soon as it was announced that Mr. Hoffman would address the OEEC, the bulk of the European papers carried articles ranging from simple reports on Mr. Hoffman's expected arrival to lengthy speculations on what he was expected to say.

Obviously some prior information reached a number of these papers, for many of the articles on Mr. Hoffman's intentions were so detailed that mere speculation could not have been their basis. In France the clearest analysis was given by the daily economic journal L'Agence Economique et Financiere.

Desirous of facilitating as far as possible the vote by Congress of credit for European aid for 1950-51 and 51-52, Mr. Hoffman will announce his intention of remodeling the repartition of Aid.

He has already announced the new system will follow the pattern adopted for 1949-50....

Another important proposal is said to refer to the creation in Europe of a supra-national bank which might start operations in spring or summer 1951.

Mr. Hoffman is credited with the idea that this bank might be charged with the gradual realization of convertibility of European currencies and with granting necessary aid to one or another nation after the termination of the Marshall Plan.

The capital of this bank might be about 500 million dollars furnished in part by the International Monetary Fund and in part by the ECA and the European nations. The European nations would be called upon to make all possible suggestions in this connection and there is no doubt that the effective setting up of this organism may largely facilitate the voting of future ECA credits by Congress.

It has to be stressed, finally, that the 2 billion dollar credit which Mr. Hoffman mentioned on 19 October as possible American foreign aid after the dissolution of the ECA would by no means be intended entirely for aid to Europe. It cannot be claimed, therefore, that the Marshall Plan would survive its own death after June 1952.

The leftist -independent Combat considered the alleged new American view of how to free the OEEC, so that it can do some significant work. It stated in part

It is held that the important statements which Mr. Hoffman, Administrator of the ECA, will undoubtedly make on Monday will deal with immediate realization, by means of a system of regional zones, of the economic and monetary unification of Europe.

The plan would be to have American aid allocated by the ECA according to a pattern proportionate to the repartition of aid during the present budget year. OEEC would then only have a secondary part to play.

In addition, interested circles think that the ECA would have at its disposal a reserve, a sort of "pool" which it would use to give a "bonus" to this or that more "liberal" country. Moreover, it is likely that a certain number of projects will be submitted with the aim of setting up intra-European organizations European Bank, European Monetary Fund, etc...)

The conservative Le Monde and the rightist-independent Le Figaro printed exactly the same article except that, in the last paragraph, the papers did not use the aggressive formula of Combat but said

.....a reserve, a pool which it would use to cover exceptional needs of one or the other European country.

The heading of Le Monde's article was

"The Importance Of The Next OEEC Meeting.

The Aim Of Mr. Hoffman's Trip To Paris Is To Activate European Cooperation."



L'Aube (MRP-liberal catholic) did not specify the means which Mr. Hoffman would be expected to advocate but said that he would ask for abolition of trade and customs barriers and the setting up of a European market. According to its article Mr. Hoffman was dissatisfied with the efforts made by the nineteen Marshall countries towards establishing freedom of trade and free convertibility.

The rightist, governmental L'Epoque printed an article similar to what was written by L'Aube but elaborated on the project of a European bank in these terms

..... It is likely that Mr. Hoffman will also ask for the creation of a Western European Central Reserve Bank and for the establishment of a permanent council to supervise gradual abolition of customs barriers and that he will insist on close watching of those budgets which show a possibility of provoking inflation.

The Central Reserve Bank could be something like a subsidiary of the International Monetary Fund or, in other words, an entirely new European institution; and it would be financed largely by the United States.

After exposing his views to the OEEC, Mr. Hoffman will proceed to Frankfurt, London, and back to the United States.

The British provincial Glasgow Herald on 25 October added some significant details about the basis for American objections to certain OEEC deficiencies. Its article began with the standard anticipation of what the Hoffman visit was about and then continued

.....The greatest censure of the organisation's work so far is that, apart from dividing out dollar aid- which has taken an inordinately long time and for 1949-50 is still incomplete- all that has been effected is revision, revision again, and finally suggestions to member Governments. There has been no integration. It is frankly

admitted, for example, that some, perhaps many, of the individual projects for refining crude oil by member countries will prove uneconomic. Yet they are to go on, and one of the chief reasons is that these Continental countries claim that they will be unable to find sufficient sterling to purchase refined rather than crude oil- the former being much dearer- from sterling companies in the Middle East. But if these countries could obtain the sterling, much wasteful use of resources could be eliminated by refining more at the source of crude oil supply and in efficient refineries. The market for refined oil is, however, to be rigidly confined by national boundaries, instead of being a single integrated whole.

The jingoistic, strongly anti-labor London Daily Mail actually put words into Mr. Hoffman's mouth in a short article on 26 October which stated in part

A central bank for Western Europe will be urged by Mr. Paul Hoffman, Marshall Plan administrator, at a meeting of Marshall nation Ministers in Paris next Monday.

In a hard-hitting, 15-minute talk to Sir Stafford Cripps and the Foreign or Finance Ministers of the other eighteen Marshall Aid nations, Mr. Hoffman is likely to press for: -

A permanent board to guard against "back-sliding" in the removal of trade barriers, and

Control over inflationary budgets.

Mr. Hoffman will tell the Governing Council of the OEEC: "You have done well up to now, removing trade restrictions, adjusting currencies and stepping up production. Now we must look ahead."

A similar confidence in what would be said was displayed on the same day in an article published in the independent-conservative Daily-Telegraph.

The Swiss papers devoted several articles to the Paris talks. On 25 October the Bern governmental daily Der Bund devoted two columns of its economic page to an article headed "A decisive session of the OEEC to be held. Foundation of a Central Complaint and Arbitration Group for the Liberalisation of Trade Relations- Discrimination against Switzerland Continued." The article did not contain any direct reference to what Mr. Hoffman might say. On the next day the rightist-liberal Neue Zürcher Zeitung published a lengthy article under the heading "New tasks for Marshall Aid. American Plans for the Promotion of Free Market Economy." This dispatch by Solomon Wolff from Paris first reviewed the results the OEEC efforts had yielded up to that point and after stating that Mr. Hoffman was expected in Paris at the end of the week it dealt with the American viewpoint which, it said, was to speed up the removal of import quotas and reform the system of repartition of Marshall aid. The author said that

Mr. Hoffman would urge the participating countries to hasten in their efforts and used terms similar to those used by French conservative papers in explaining that definite results would have to be shown to Congress if new appropriations were to be voted. The paper reprinted the same article on the next day.

On 24 October the Dublin Irish Independent reflected a sceptical and critical view of the new developments. This tone was somewhat surprising since the Independent consistently has supported Foreign Minister Mac Bride in his policy of creating a unified Western Europe. The article began with an assertion that Washington was developing plans for a single-market Europe, realizing all the while that the maximum achievement possible might well be a small number of free-trade country groups. Then it asserted

Ostensibly these proposals are of an economic character; in fact, they have first-class political implications. It is reported, for example, that one free trade group is contemplated that would consist of France, Italy, Belgium and Western Germany. If such a group was ever set up not much would remain of the political sovereignties of those countries. It is difficult to feel that such a combination could be achieved when the slow progress of the Belgo-Dutch customs union is remembered. Short cuts are not so easily found. It is probable that the rumors from Washington have been designed to test European reactions. If so, they are likely to find a cool reception. But it is well for the Marshall aid countries to remember that the American people expect to see progress towards European unity, even if the difficulties are badly underestimated.

In Belgium several papers speculated on Mr. Hoffman's intentions along lines similar to those adopted by the French papers. On 24 October La Lanterne (independent-liberal) published an article under the heading "Hoffman to present a New Plan for the Repartition of Marshall Aid." La Nation Belge (independent) published a similar article headed "A New Plan of Hoffman for the Repartition of Marshall Aid". The economic journal Echo de la Bourse on 27 October devoted a column to Mr. Hoffman's Proposal at the OEEC's Next Session. An Exposé Based on Reproaches." It said that Mr. Hoffman's proposal would cover

1) A new system of free repartition of Marshall aid aimed at favouring countries which had increased their efforts in the desired direction;

2) The creation of a European reserve bank either financed by the United States or acting as a subsidiary of the International Monetary Fund;

3) The setting up of a committee for the gradual abolishment of customs barriers;



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4) A Control Committee for budgets within the OEEC, with the aim of combating inflationary tendencies;

5) The speeding up of regional economic unions.

La Nation Belge (independent) on 27 October used the strong heading "Mr. Hoffman to Hand the OEEC Countries an Ultimatum" over an article which stated in part

..... well-informed sources state that Mr. Hoffman has prepared a series of proposals which practically will face Western European nations with the choice between an increased effort in the field of production in intra-european trade or the risk of a large scale production of American aid.

The Dutch press also gave considerable advance coverage to Mr. Hoffman's visit to Europe and the general slant was that they expected Mr. Hoffman to tell the Western European countries to cooperate or else. The independent-liberal De Telegraaf observed that if it was actually Mr. Hoffman's intention to urge Europe toward closer cooperation, this warning would also concern Holland which had been "muddling around with the Benelux in a very poor fashion". The paper continued by saying that this was true only because the Dutch insisted on trailing behind a country standing in the way of cooperation: Great Britain. The paper went on to observe that if "Proud Albion" had been geographically situated near the United States, the 48 states of America would never have succeeded in cooperating. It continued its reproaches against the British by saying that it was obvious that they were not very keen on cooperation with the countries of the continent; the methods used by the British government in the devaluation proved that the British had severed their ties with the remainder of Western Europe. "We will have the choice", the Telegraaf concluded, "between Britain and other countries like France and Belgium in devising a system which will save our civilisation and our economy."

On the next day the Catholic morning paper De Volkskrant published an article along the same lines in which it exposed its conviction that while Europe as a whole might have shown more initiative in the question of economic integration, Great Britain in particular had proved to be a specific handicap on the road to economic recovery. The paper expressed its belief that smoother convertibility doubtlessly was one of the conditions essential to the economic rehabilitation of Europe.

Yet it would be senseless unless the pound and the dollar are included in such a convertibility. Western Europe is not self-sufficient, economically or militarily, and a currency union or even a single currency in Europe would have little or no value. It would be a different matter if the United States were to take part in such a currency union and this would probably result in a more cooperative attitude on the part of the British.

In Italy and in the remaining Marshall Plan countries reports in the papers prior to the actual conference were generally limited to announcements of which Ministers would attend the conference and to indications that in the course of the meetings Mr. Hoffman would suggest a new distribution of ERP aid aiming at achieving the organization's fundamental aim, the economic unification of Europe. Some papers added that the suggestion would also point to a solution of the monetary problems which in Mr. Hoffman's opinion (said the papers) represented the main difficulty to be overcome in the creation of a vast unified Europe market.

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two years together. This should not be taken to mean that suggestions on these lines may not be put forward at a lower and more technical level.

On the same day, the Times devoted one full column of its editorial page to reasoned comment on the speech under the heading "Call to Europe". The editorial included emphatic reference to Ambassador Foster's "plea...in New York... for American help in the purchase of more European goods," and added that "(it) shows unmistakably that free trade can know no frontiers, whether of continents or nations." In the Times' view this request was fully as important as Mr. Hoffman's admonition, which was, it felt, a stout blow for a 'European state of mind'. In concluding its case for the establishing of the widest possible free-trade area, the Times went beyond the European confines of Mr. Hoffman's speech by stating

Here again Europe's need is the world's need writ smaller. There is no magic in international cooperation in any part of the world by which individual countries which chronically cannot pay their bills or, at the other extreme, which persistently sell more than they will buy can be permitted to continue with their ways. It is in the individual countries, the world over, where the economic adjustments must first be made which can bring about a more freely flowing and more efficient output and exchange of goods; and they will trade with those who will trade with them. If, at one extreme, the call is to Britain to put her house in order by measures, positive as well as negative, to make and sell goods at the lowest economic price, the call is at the other extreme to the United States itself. Mr. Hoffman seeks the debtors of Europe solvent, and they must look to their own solvency, singly and together, themselves. But, as Mr. Foster suggested in New York, it will still be America's business to do her special part in the grand balancing of accounts upon which Europe's prosperity, and the world's, will depend.

On 2 November the Times clearly showed its attitude to the problems outlined by Mr. Hoffman in two articles printed next to each other on the same page. One was headed "Integration Of Europe, British Attitude, Sir Stafford Cripps Reply To Mr. Hoffman," and the other "Council Of Europe, The Next Stage." The latter article again emphasized the points made by Mr. Hoffman and then turned to the answer given by Sir Stafford Cripps. It paid particular notice to his mention of Great Britain's task within the framework of Mr. Hoffman's recommendations

Defining the British position, he said: "We, as the centre of the largest multilateral trading area of the world, for which we act as banker, recognize the benefits that flow from multilateral exchanges of the kind that Mr. Hoffman has in view." Britain had stated frequently that her aim was to restore a world-wide system of multilateral trade with convertible currencies and she had consistently sponsored measures to bring that about.

"Our future depends, we believe, upon our being able to achieve such a state of affairs," said the Chancellor. Britain had made it clear from the beginning that her task was to try to combine her responsibilities and interest as a leading member of the Commonwealth and of the sterling area with support for the development of unity in Europe. This was not an easy task, for it must be made clear that her relationship with the Commonwealth and sterling area was not a limited one but spread into North America, through her association with Canada, and into Asia, Africa and Australia - in which continents the foreign trade was predominantly carried through in sterling.

The Times then tied up the OEEC discussions with the negotiations concerning the Council of Europe and connected the two problems

The meetings will at least provide an opportunity for soundings all round and for considering the interpretation to be placed on Article 5 of the Statute. This is the article which provides for associate members, entitled to seats in the Assembly but not in the Committee of Ministers. It was assumed to have been inserted for the benefit of Germany or other countries which might be in process of gaining or regaining full sovereignty and so could be expected to qualify at a later date for full membership. It is not clear what the eventual intentions of France are with regard to the semi-autonomous Saar, but the Saar Government has apparently been given reason to hope that, as in the case of Belgium and Luxembourg, economic Anschluss to France need not exclude political sovereignty. If that is the prospect, the Saar could presumably be received into the Council of Europe without distortion of the intention of the Charter or prejudice to the long-term interests of Germany.

In making its recommendations to the Ministers on the economic crisis the Assembly anticipated Mr. Hoffman's statement to the OEEC on Monday with a more ambitious programme. The basis idea is the single European market, and the Ministers are invited to take all preliminary steps for the establishment of a European economic union embracing all the member-countries of the Council and associated overseas territories. Convertibility of European currencies, machinery for the coordination of credit policy, liberalization of trade, the free movement of labour, the coordination of transport, heavy industry and agricultural production, are all covered by the Assembly's programme. The Ministers will no doubt consider, or invite the OEEC to consider, what proposals deserve further examination, and how that is to be done without duplication of existing machinery.



The standing committee of the Assembly, of which Mr. Spaak is president, will meet in Paris on November 7 to hear what the Ministers have had to say about the Assembly's recommendations and decide whether the extraordinary session contemplated for early next year to discuss the admission of Germany can usefully be had.

The pro-labour tabloid Daily Graphic gave only very limited coverage to the Paris talks. On 2 November the paper wrote in part

The Marshall Plan "Inner Cabinet" of Eight Ministers, meeting in Paris, had reached no agreement last night on how best to carry out Marshall Plan Chief Paul Hoffman's plea for a speedy integration of European economy.



It is believed that last-minute alterations and discussions held up agreements.

Two plans have been put forward. One is Sir Stafford Cripps's calling for lifting of at least half of quota restrictions on private trade among European Marshall aid nations.

The other is French Finance Minister Maurice Petsche's plan for free convertibility among themselves of all Marshall nations' currencies, and coordinating State investments.

The French are pressing for their plan to be accepted.

They accepted the principle of the "Cripps Plan" only after much hesitation.

The French Government takes the view it will mean greater sacrifices particularly by French agriculture, to meet it, and have proposed amendments to the British proposals.

Conservative and independent London Papers on the other hand, showed an altogether positive attitude towards the recommendations made by Mr. Hoffman. The larger part of the articles consisted of quotations and summaries of Mr. Hoffman's speech itself, and in addition several papers made comments which were clearly indicative of their position. The Daily Telegraph on 1 November published a lengthy summary of the speech and supplemented this summary by an editorial under the heading "Warning and Request to Europe." It stated in part

It may seem at first sight that Mr. Hoffman has confirmed his reputation for optimism by calling on the OEEC countries to have ready a "concrete plan" for their economic integration by early next year. Nevertheless, both this request and the warning implicit in it deserve the utmost possible response. Mr. Hoffman is properly anxious that the great experiment of Marshall Aid shall not fail. That means that the recipients must be able to cast away what Mr. Reynaud has so oppositely

called their crutches" by 1952; and that meanwhile Congress must not be discouraged by the failure of a disarticulated Western Europe, and its associates in other countries, to begin to knit its broken bones together.

There are two ways of dispensing with American aid. The first is to increase exports to the United States sufficiently and with sufficient permanency. The other is to find and to pool supplies alternative to those now obtained from dollar sources. Probably, as Mr. Hoffman suggests, success lies in a combination of the two.

and ended by stressing

that Europe will be hard put it to reach the goal by 1952 -let alone next January. Of course, there is all the more reason not to delay first steps, and if Mr. Hoffman's speech yesterday was what the Americans call "getting tough", let us have more of such stimulating and constructive toughness.

The News Chronicle (liberal party) on the same day, supplemented its coverage of Mr. Hoffman's speech by an editorial headed "Unity Or Disaster" which stated in part

America spoke to Europe in the plainest terms when Mr. Paul Hoffman, head of the Marshall Aid organization, addressed Sir Stafford Cripps and other Finance Ministers of Western Europe at a meeting of OEEC, in Paris yesterday.

There was no escaping the urgency of his message. The European Recovery Programme is now approaching the half-way mark. Good progress has been made by nations acting individually. Production has steadily increased, Inter-European trade has been stimulated. The dollar gap has been reduced.

It means that countries will have to plan a joint capital investment programme designed not to further the interests of one nation but of all. It means that there must be a determined assault on all restrictions and quota limitations of trade. Britain has already taken the lead in this direction. It must be pursued ruthlessly.

These are but the beginnings of a programme which would eventually touch the lives of every European, a programme which demands nothing less than revolution in the thinking of all our peoples. That revolution has hardly yet begun. The recent economic debates in Parliament took place with scarcely a mention of the theme with which Mr. Hoffman was so urgently concerned yesterday.



Unless we bestir ourselves very soon the grim alternative will be upon us. Either we pursue this business of unity in Europe as if we really meant it or else our living standards will fall catastrophically in a matter of two short years- with what dire consequences few would dare predict.

Lord Beaverbrook's Tory Daily Express reacted violently and totally as was to be expected. This jingoistic mass-circulation daily continued its consistently anti-American line by heading its article on 1 November "Europe Given Eleven Weeks to Act" and said in part

Britain and 18 other Marshall Aid nations are tonight puzzled and bewildered by a 1,500-word ultimatum to Europe from President Truman.

It gives them 11 weeks to draw up a master plan for economic unity in Western Europe.

And it hints that the U.S. will reconsider her aid policy unless a plan is produced and put into force "early in 1950."

The challenge was thrown down to the 19 in Paris today by Marshall boss Mr. Paul Hoffman. At the end came this quietly spoken phrase:-

"The immediate goal, a solidly based prosperity for an economically unified Western Europe, President Truman reaffirmed to me just before I left Washington."

Hoffman justified his time-limit by stressing the urgency of the need. Failure, he said, would mean "disaster for nations and poverty for peoples." He demanded:

1. Really effective action to let trade flow freely;
2. A far-reaching programme to build in Western Europe a "dynamic, expanding economy", promising steady improvement in conditions for all its peoples.

Then came a plea for incentive, "Governments may exhort, but unless sales in dollar market bring adequate rewards to sellers, the great effort to enter and hold these markets will never be made", said Hoffman.

What Sir Stafford thought about this plea is not known. But Britain's viewpoint is said in Paris to be:-

"We have done enough. Sir Stafford has put forward a plan to cut import quotas on half our trade with European countries. It is now for the rest of Europe to act."



B File

Supporters of the French plan have gone into the background tonight. This is for a gradual extension of the Benelux system of economic unity to wider groups with the aim of bringing in all Western Europe.

But the major headache for the delegates is; How can we, in three months, get out a scheme to satisfy ourselves and the Americans?

The Express Political Correspondent writes: Sir Stafford Cripps is promising nothin in the way of further commitments to Europe, and his reply to all proposals will be that he must talk them over with the Cabinet.

This applies particularly to suggestions that there should be full convertibility between Western European Marshall Plan currencies and the pound. Whitehall opinion is opposed to this.

The conservative papers followed generally the line of the Times and the Daily Telegraph, except that the Daily Mail stressed that Sir Stafford Cripps had expressed himself very cautiously on the prospects of achieving unified European trade

Sir Stafford pointed out that Britain's existing Commonwealth commitments must come first. He added:



"Yet at the same time we regard ourselves as bound up with Western Europe, not only in economic terms and in political and strategic interests, but in our culture and indeed in our participation in the heritage of Christian Civilization."

"I feel that I know almost exactly what other countries feel about our British economy- and incidentally, about me, too- and I am glad of that frankness.

"That frankness is the only basis upon which we can build any real cooperation or integration.

"We have accomplished a good and sound beginning, and now we must stride forward with bolder steps, swift though unhurried, to bring us further along our road of economic cooperation."

The Daily Mirror, which sometimes has a pro-labor slant, sounded much like the Tory Daily Express when it used the banner headline "Cabinet To Meet On M-Aid Chief's Ultimatum" and stressed

Immediately Sir Stafford Cripps returns from Paris the Cabinet will meet to consider the virtual ultimatum delivered to Western Europe yesterday by the Marshall Aid administrator....Key phase in Mr. Hoffman's speech was: "I Make the considered request that you have ready early in 1950 a programme which will take Europe well along the road to economic integration"....So far as Britain is concerned, our reply is likely to be 'sharp and to the point.

Non-communist French papers generally seemed to derive a feeling of active participation from the fact that France was the first OEEC country to translate Mr. Hoffman's speech into a tangible proposal.

While governmental papers thus supported Mr. Hoffman's views and stressed that the French proposals would form the basis of the European program of action for 1950, some papers gave a clear picture of the extent, and limitations of the liberalization program. On 2 November the conservative-independent Le Monde, after stressing the importance of the French proposals in its headlines, outlined the project

Liberalization of trade? Let us remind the reader that the plan is that every OEEC country shall abolish, before 15 December, at least 50% of its quotas for imports of raw materials, agricultural products, manufactured goods, from the other participating countries then as a whole.



Let us specify that this "liberalization" does not cover customs tariffs; hence these tariffs are maintained or even re-established if need be. Moreover it deals only with private trade in each country; state trade is not affected and escapes liberalization. We have also noted that some countries have decided not to extend all the benefit of the suggested measures to all their trade partners.

Rene Dabernat, the author of this article concluded with a plea for economic unification and for particular efforts on the part of France

In taking the initiative on those proposals, France asserts her will to play her part, fully, in a Europe which is being gradually relieved of the burden of controls resulting from the war. France will succeed only if she gives the example of political, economic, and financial stability to the other countries.

The gaullist Ce Matin-Le Pays generally took a positive attitude but mentioned the fact that OEEC had apparently taken too much upon itself, hence the present difficulties. It also said, two days before the new proposals were adopted, that the British representatives were finding Messrs. Hoffman and Petsche's suggestions too ambitious and disagreed with the other nations.

The leftist-independent Franc-Tireur took a very sceptical view of the negotiations going on in the Chateau de la Muette. In speaking of Mr. Hoffman's speech the paper used the heading "The New 'Tales Of Hoffman'," and on 3 November summed up its view of the whole meeting by saying that the OEEC had given up its real plan of unifying Europe, but that an "armed Europe is being prepared in the Ruhr."

The strongly leftist Combat did not actually attack the negotiations but it expressed its strong scepticism by saying that after the OEEC had decided to unify Europe it was now leaving the real task to such problematic and theoretical creations as Fritalux.

Paris press coverage for the whole period of 28 October to 3 November was at least one article per day in each of the major dailies. This fact was all the more significant as during the first few days Marcel Cerdan's death was still very much in the headlines and left comparatively little space for world affairs in general. Mr. Hoffman's speech itself was generally summarised along with some comment; the attitude taken by the paper involved could be clearly seen from its headlines. They were



Combat (leftist-independent)

- 10-28-49: Opening Of The OEEC Conference. France Will Propose The Liberal Continental Union Asked For By The U.S.
- 10-29-49: Before Hoffman's Speech At The OEEC Petsche And Van Zeeland Present Even Stronger Bid For Freetrade.
- 10-31-49: Before The "Nineteen" Of The OEEC, Sir Stafford Cripps Proposes The "Liberalization Of 50% Of European Trade." Mr. Hoffman Has Met Mr. Van Zeeland And Sir Stafford Cripps.
- 11-1-49 : Mr. Hoffman Asks For Unification Of Europe. The "18" Of The OEEC Will Vote Their Support This Evening.
- 11-2-49 : The "18" Of the OEEC Accept The Demands Of Mr. Hoffman For A Liberal Program Before 1950.
- 11-3-49 : After Having Agreed In Principal Of Return Of Free Trade The OEEC Leaves It To Fritalux, Decision Of The "18"

Le Popolaire (socialist)

- 10-28-49: Towards The Progressive Attachment Of The OEEC To The Council Of Strasbourg ? Mr. Hoffman Foresees The Economic Unification Of Europe.
- 10-29-49: The Order Of The Day Of The Consultative Group Of OEEC Called Liberalization Of European Commerce And The Irish Proposition In Favor Of A "New Deal".
- 10-31-49: The OEEC Is Today Holding A Plenary Meeting "The Means Of European Unity Ought To Be Hnto Effect By Europeans Themselves" declares Mr. Hoffman, Ambassador Of The Marshall Plan.
- 11-1-49 : The Council Of The OEEC Will Today Examine The Suggestion Of Mr. Hoffman; After The British And French Propositions On The Liberalization Of Trade Important Progress Seems To Have Been Realized.
- 11-2-49 : France Accepts The Liberation Of 50% Of Its Trade.Until Now The Eight Ministers Of The OEEC Have Not Reached An Agreement.
- 11-3-49 : The Council Of The OEEC Has Adopted A General Resolution With These Principal Points. 1.The Liberation Of 50% Of Trade. 2. The Recognition Of Regional Unions.3. The Necessity Of Coordination Of Economic And Financial Policies.

L'Aurore (right of center)

- 10-28-49: The Committee Of The OEEC Meets Today.
- 10-29-49: Mr. Petsche Will Underline The Necessity Of Intensifying The Liberation Of Inter-European Trade And Of Accelerating The Free Convertibility Of Currencies.
- 10-31-49: The Countries Of Europe At The Cross-Roads. Units Economically And Financially...Or What?
- 11-1-49 : Mr. Paul Hoffman Asks The Countries Of Western Europe To Realise Their Economic Union While He Defines The Necessary Conditions. The Chance Of Western Germany Is Written In That Of Organized Europe. Will They Liberate The Tariff Barriers On 50% Of Continental Trade?
- 11-2-49 : Mr. Petsche Has Amended The Cripps Project On The Liberation Of Trade. Mr. Robert Schuman Proclaims The Total Adherence Of France To The Principles Of Mr. Hoffman.
- 11-3-49 : Favorable To The Unification Of The European Market The OEEC Decides: (1) To Liberate Between Now and The 15th December 50% Of Private Trade. (2) To Study The Suppression Of The Practice Of Double Prices. (3) To Encourage Regional Economic Agreements.

Le Parisien Libere (right of center-pro de Gaulle)

- 10-28-49: Meeting Of The 8th At La Muette...And To Save The Marshall Plan France Would Like To Attach The OEEC To The Council Of Europe.
- 10-29-49: Blackout At The Chateau De La Muette and The Eight Of The OEEC Held Their First Meeting In Secret.
- 10-31-49: The Work Of The OEEC In The Chateau De La Muette. France And England Have Agreed To Liberate 50% Of Their Exports.
- 11-1-49 : Big Meeting At The Chateau De La Muette. Will The "17" Of The Marshall Plan Aid Get Together Today On A Plan For The Economic Unification Of Europe. Mr. Hoffman Said Yesterday That The United States Desires This Agreement Very Much.
- 11-2-49 : No Result Yesterday...In The Conference Of The OEEC At The Chateau De La Muette.
- 11-3-49 : Final Meeting At The Chateau De La Muette. The Mountain Of The OEEC Has Given Birth To A Mouse. The "17" Of The Marshall Aid. 1. Recommend Liberalization 50% Of The Exchange In Private Trade. 2. Vote Noble Resolutions On The Economic Unity Of Europe.

Le Figaro (rightist-independent)

- 10-28-49: Disappointed By The Apathy Of The Beneficiaries Of The Marshall Plan, The American Leaders Have Given Mr. Hoffman Firm Mandates.
- 10-30-49: At The Chateau De La Muette The Consultation Council Of The OEEC Yesterday Tackled The Problem Of The Liberalization Of Trade. Indispensable Step Towards The Economic Unity Of Europe.
- 10-31-49: Sir Stafford Cripps Has Proposed To The Consultative Group Of The OEEC The Immediate Liberalization Of 50% Of Trade.
- 11-1-49 : The Marshall Plan And European Unity. The Conference Of OEEC And The Resolutions Of The Consultative Group.
- 11-2-49 : Yesterday Before The Council Of The OEEC Mr. Robert Schuman Proposed The French Project Of Regional Unions. After Sir Stafford Cripps Had Previously Given The British Plan.
- 11-3-49 : The Plan For The Rebuilding Of Western Europe Is Adopted By The OEEC. Liberation Of Trade Necessitates Regional Unions.

Le Monde (conservative)

- 10-28-49: The Crisis Of The Marshall Plan. Washington Wishes The Progressive Attachment Of The OEEC To The Organization Of Strasbourg.
- 10-29-49: The Crisis Of Europe. The Meetings Of The Chateau De La Muette. The Countries Of The OEEC Are Trying To Liberate Their Commercial Exchanges.
- 10-30-49: Mr. Petsche Is Partisan Of A Progressive Return To Liberty Of Trade And Payments.
- 11-1-49 : No Paper
- 11-2-49 : French Proposals Form Basis Of The Program Of Action For 1950, And The Member States Are Invited To "Liberate" 50% Of Their Private Imports.
- 11-3-49 : No more Papers Available.



B File

Franco-Tireur (leftist-independent)

- 29-10-49: At La Murette The OEEC Is In The Saddle Of A Sick Europe. Hoffman Looks Forward To A Horse Remedy.
- 10-31-49: At La Murette Mr. Petsche Accepts The Liberation Of Half Of French Commerce With Western Europe.
- 11-1-49 : At La Murette, Official Return Of Germany. Mr. Hoffman Proposes A Plan Of "Life-Saving".
- 11-2-49 : Bidault Says "Yes" To The New Marshall Plan Proposed By Hoffman. The New Tales Of Hoffman.
- 11-3-49 : At La Murette, Marshall Planners Give Up Unifying Europe But An Armed Europe Is Being Prepared In The Ruhr.

L'Aube (catholic-MRP)

- 10-28-49: Integrate Europe, Number One Problem For OEEC Consultative Group Meeting In Paris Today.
- 10-29/30-49: Petsche Submits French Memorandum On Freeing Of Trade To OEEC Today.
- 10-31-49 : Sir Stafford Cripps To Propose To OEEC Council Freeing Of 50% Of European Trade As From 15 December. France Said To Favor This Project But To Demand Also A Real Organization And Coordination Of European Economy.
- 11-1-49 : Hoffman Proposed 5 Point Plan To Save Europe From "Disaster And Distress."
- 11-2-49 : At the OEEC France Accepts Sir Stafford Cripps's Proposals.
- 11-3-49 : Eighteen OEEC Countries To Lift 50% Of Import Restrictions On 15 December. They Have Defined A Program Of Action.



L'Epoque (extreme right)

- 10-28-49: Important OEEC Council Meeting Opening In Paris Today.
- 10-29/30-49: Mr. Maurice Petsche Has Submitted To OEEC A Memorandum On Freeing European Trade.
- 10-31-49 : A Deadline For Europe, OEEC's Big Eight Have Adopted The Project Of Liberalization Of Trade. Mr. Hoffman States The United States Has No Intention Of Using Tougher Policy.
- 11-1-49 : "Unite Before 1950 Or You'll Meet Disaster !" Mr. Hoffman's OEEC Warning. France Proposes Creation Of European Monetary Fund. Mr. Hoffman Demands Europe's Economic Unification.

- 11-2-49 : OEEC Will Answer Mr. Hoffman's Appeal For Europe's Economic Unification Only Today. French Proposal Today.
- 11-3-49: OEEC Has Adopted New Measures For Europe's Economic Unification. System Of Repartition Of Marshall Aid To Be Modified. Work Of The OEEC.

Ce Matin-Le Pays (Gaullist)

- 10-28-49: "American Aid Will Survive The Marshall Plan" Says Mr. Hoffman Who Is Expected Tomorrow In Paris.
- 10-29-49: Taken Too Much On. Difficulties Of Economic Unification In Paris.
- 10-31-49: Today In The Council Of The OEEC Mr. Hoffman Admonishes Europe To Coordinate Its Efforts.
- 11-1-49 : Man Of The Day Mr. Paul G. Hoffman, Our Guest, After Having Started As A Car Salesman, Has Taken The Steering Wheel Of The Marshall Plan. Hoffman Asks The Eighteen For Plan Of Unification By The 1 January. France Proposes Creation Of A European Bank.
- 11-2-49 : England Finding The Projects Of Hoffman And Petsche Too Ambitious; Disagrees With The OEEC. All Decisions Left For Today.
- 11-3-49 : The End Of The Session At La Muette; The Eighteen Free 50% Of Private Trade In Europe. The OEEC Renouncing A European Union In One Step; Looks Forward To Original Agreements.

Most Swiss newspapers emphasized European unification rather than the purely economic aspects of Mr. Hoffman's speech in their banner headlines. The independent, liberal, left-of-center, National Zeitung in its edition of 1 November carried on the front page a banner headline "Mr. Hoffman Appeals TO THE MARSHALL PLAN COUNTRIES". On the second page the paper published a twelve-inch article under the heading "WESTERN EUROPE'S ECONOMIC SALVATION IS DEPENDANT UPON UNIFICATION, STATES PAUL HOFFMAN". It stated in part

Paul Hoffman, the Administrator of the Marshall Plan, stated that Europe's trade with the United States in June 1952 would have to be balanced on such a low level that it would result in a catastrophe in Europe and in difficulty for the United States unless Europe's dollar earnings undergo a dramatic increase before that deadline.

B File

The paper then went on to say that Mr. Hoffman stressed that devaluation alone was not sufficient and that the economic salvation of Western Europe could only be achieved by unification. It continued by quoting Mr. Hoffman's five suggestions for such unification and concluded

Mr. Hoffman said that beyond the immediate aim, there was hope for a lasting peace based on justice and freedom. This hope could be realized, he said, if the peoples of the Free World continue to cooperate and to stick together.

The same paper in its afternoon edition of the previous day referred to Mr. Hoffman's radio address made before he left the United States in an eight-inch article headed "HOFFMAN DEMANDS HEROIC EFFORTS ON THE PART OF WESTERN EUROPEAN NATIONS". In this article the paper stressed that Mr. Hoffman had said the first stage of reconstruction had been concluded and that the main problem is now to help Europe to increase her dollar earnings. He said that Europe would have to increase her productivity and to make her sales in the United States more competitive so as to be in a position to pay for the merchandise she must purchase from the United States.

The Neue Zürcher Zeitung (Independent-Right) devoted its entire front page on 1 November to coverage of Mr. Hoffman's OEEC address. The lead article was headed "OPENING OF THE PARIS ECONOMIC CONFERENCE. HOFFMAN ON EUROPE'S ECONOMIC FUTURE. THE SPEECH OF THE ADMINISTRATOR OF THE ECA". Like other Swiss papers, the Neue Zürcher Zeitung devoted a long section to Mr. Hoffman's reference to the representatives of the Western Zones of Germany and summarized the answer in which the Chief of the German delegation, Vice-Chancellor Franz Blucher, thanked the Administrator. The paper did not offer, however, any comment on Mr. Hoffman's speech, and neither was the subject dealt with in the editorial pages.

The French-language, conservative, Geneva paper "Journal de Geneve" did not mention Mr. Hoffman's speech at all on Tuesday, 1 November.

In Sweden Mr. Hoffman's OEEC speech was prominently featured. Dagens Nyheter and Svenska Dagbladet carried lengthy reports from their Paris correspondents in which they stressed the fact that Mr. Hoffman's speech did not contain any of the anticipated "threats" or "ultimata" but only friendly "fatherly advice" to the ERP countries to consolidate their economies. They reported that Mr. Hoffman had not shown any desire to take sides but had been rather inclined to play the part of a mediator in the Franco-British strife within the OEEC. These correspondents also showed their belief that Mr. Hoffman hoped that OEEC would be able to supply him with sound arguments for the end of next year.

On the other hand Stockholms Tidningen (Liberal Party) based its article on the Reuter dispatch and branded the speech as "almost tantamount to an ultimatum." The news headlines were "U.S.A. Insist that Europe must become Economic Unit."

Morgen Tidningen (Social Democrat) featured the AP version and stressed "US Insistence on European Economic Coordination." The article said that Mr. Hoffman had presented his conditions for the continuance of aid to Europe.

The other Scandinavian countries also gave very extensive coverage to Mr. Hoffman's speech with particular emphasis on editorial comment. As in Sweden, the Norwegian press was divided as to the degree of endorsement it gave to the way Mr. Hoffman had expressed himself. The conservative Morgenposten on Nov.1 said that Mr. Hoffman's speech meant that the U.S. had chosen between the "two fundamentally different views of trade intercourse in Europe"-- choosing the viewpoint of the French, to which Italy and Belgium adhere. (The other view is that of the British, with support from the Scandinavian countries and in part from Holland; where the Social-Democrats "hold the reins of office and have the responsibility for the home and external budget"). The French-Italian-Belgian view is called "a sort of Conservative Centre line."

Stating that Mr.Hoffman"has the support of all the Marshall countries, and perhaps also of the new member, West Germany, in this view" (previously stated at the absolute necessity" to create co-ordinated lines for the trade, economy and currency development of the whole of West Europe") the editorial concluded

That the United States has now decided to intervene so vigorously in the affairs of the individual West European States as Hoffman's speech forbodes, can only be interpreted as an attempt to create the unity which all the countries in West Europe are agreed is indispensable of a happy result.

Another conservative Oslo paper Aftenposten on 3 November said

...It is so nice way of having the program served -- as a kind of American ultimatum.

But it is not the Americans who have made the program. If we read through Hoffman's speech we will find that it covers the economic program drawn up by the European delegates in Strasbourg, and which they recommend of the ministerial committee to implement. As far as we can see, Hoffman's speech is therefore no attempt to force American ideas upon Europe, but it reflects American impatience at Europe failing to implement its own ideas of European cooperation.

We can understand their impatience. But Americans should also understand that a large, free European market not only offers new prospects of increased activity, but that it raises serious economic and social problems for people who for generations have built up their economic activity behind protected national borders.

The independent-conservative Verdens Gang, on the other hand, headed its article "Good Advice from Paris" and said in part

...at the meeting of the Ministers' Council for the Marshall plan,... when Hoffman put forward the plan which the participating countries ought to follow, if they are to reach the goal of equilibrium in 1952.

The Irish press gave comparatively little coverage to Mr. Hoffman's speech itself, but they particularly stressed the suggestion made by the Irish Minister for External Affairs for a meeting between the OEEC representatives and representatives of the United States with the aim of bringing about what he calls "American-European New Deal".

The Cork Examiner on 28 October headed its article "Crucial Meeting of OEEC. Organization on Trial."

In Italy as well Mr. Hoffman's speech and the OEEC negotiations enjoyed considerable coverage. On 1 November the Rome paper Il Tempo, (right) said

Mr. Hoffman's speech was not in the nature of a brutal ultimatum as some feared (American diplomacy is improving in outward forms as well, and aims at avoiding a repetition of recent errors).

The dilemma put forward by Mr. Hoffman is clear: either the economic union of Europe or a regime of national self-sufficiency policies. The latter do not meet with U.S. approval while the former will have its entire support and encouragement.

The most interesting part of Mr. Hoffman's speech is that suggesting regional unity as a first step toward continental unity, stressing that the former will in no way prejudice the latter.

On the same day the most widely read Italian paper Corriere della Sera (moderate right) stated

Mr. Hoffman's speech was very comforting. Instead of the expected criticism he warmly appealed to Europe to unite, giving formal assurance of American support toward this end.

Mr. Hoffman did not impose any time restrictions but declared he was speaking as Europe's friend.

All European countries are firmly decided to take steps toward the liberalization of exchanges but wish to proceed prudently avoiding all hasty moves which might prove dangerous.

Mr. Hoffman appears to be fully aware of the difficulties which stand in the way of a rapid creation of a single vast European market.

The three main points of Mr. Hoffman's speech are: abolition of customs barriers; control of currencies; creation of a vast single European market.

On the other hand La Stampa (Liberal) expressed indirect criticism of Great Britain's position when it said

Some sceptically point out that European economic unity (integration as Mr. Hoffman calls it) cannot solve the dollar scarcity problem offhand. European unity will not allow for a rapid reduction of production costs which is indispensable if we are to compete successfully with American industries.

Britain has subtly proposed to abolish restrictions on half the quotas of goods exchanged between OEEC countries. This however affects only private exchanges and not Government controlled quotas and is entirely in Britain's favor as that country's exchanges are for the greater part controlled by the Government. Britain, besides, does not wish to extend such facilities to her three main competitors, Germany, Belgium and Switzerland.

It should also be remembered that now, quite quietly, Germany is once more an active member of the European community.

The socialist Avanti on the same day said

Observers consider Hoffman's declarations as the clearest proof of American imperialistic aims on Western Europe and believe that the step taken today by America marks the transition period between the tactics of destroying the victims one by one and the total and complete destruction of Western European economies which have already been undermined by ERP aid and by relentless American competition, as well as by currency devaluations imposed by Washington...

The next day so the papers made some reference to Italy's position Il Tempo concluded its report by saying

Minister Tremelloni in Italy's behalf made some reserves concerning the problem of Italian customs tariffs and underlined the dangers which a liberalization policy involves for

many countries, stressing besides that manpower should be included among exchangeable goods.

La Stampa said

Italy cannot proceed to the practical application of the liberalization of exchanges until next spring when our new customs tariff will become effective. In fact if half the exchanges quotas are to be abolished and customs protection should also be lacking, our country would be open to all traffics on the part of other nations. The Italian reserve was therefore essential.

The first result achieved by OEEC is certainly important but it is rather a step backward to the pre-1929 crisis situation, than a step forward. We must now progress in the direction pointed out by America and stressed anew by Mr. Hoffman yesterday, in order to solve the fundamental European problems. England has put forward many difficulties due to her connections with other countries of the British commonwealth, these however must not be allowed to stand in the way of European unity, with or without Britain such a unity must be achieved.

On 3 and 4 November, however, the situation had cleared up sufficiently from the Italian viewpoint, so that Corriere della Sera could say

...The OEEC which appeared to be on the point of failure has picked up considerably. It was feared that America would criticize and that Britain would abandon Europe. Neither one nor the other occurred. America has brought OEEC, namely Europe, the comfort of its trust and its help, even if conditioned by some essential premises, which are however clear and well defined; Britain has entered actively into European community even if causing some anxiety by her unexpected speed and in supporting economic freedom. Britain has in fact preferred to support OEEC than allow the Strasbourg European parliament from making headway, which it would have, had OEEC failed.

It was necessary to take Mr. Hoffman's warnings to heart and OEEC could not, under pain of admitting defeat postpone any longer the decision in favor of a liberalization of exchanges which is an indispensable prelude to European unity.

Questioned as to Mr. Hoffman's final declaration Mr. Tremelloni said: "Perhaps Europeans and among them Italians, do not fully realize the danger which overhang the standard of living owing to a persistent dollar scarcity. This year, Europe and consequently Italy can carry on with relative tranquillity only because America provides aid under different forms for the value of 4 billion dollars which could not be obtained otherwise. Mr. Hoffman referred to this problem, stressing it almost with anguish. It is clear that America wants a strong Europe, and as Mr. Hoffman said, will only be able

to help us if we help ourselves in the aim of reducing as rapidly as possible the necessity for help and substitute the same with a larger co-operation on a world wide scale. To achieve this, liberalization is an essential instrument. There are risks, of course, but what is the alternative? Disaster. Therefore the necessity of abandoning a "wait and see policy" in all fields, and take action valiantly.

The socialist Avanti endorsed this view

...The Marshall Plan funds have served more as a general remedy to balance the budgets of the countries than as a means to develop industry...The Americans have already paid out 8 billion dollars to subsidy European economy; they are tired of the present fiscal pressure; they ask that a past unique European market be organized, with this end in view they have advocated the liberalization of exchanges between European countries... What does that word "liberalization" means? To liberalize exchanges, besides abolishing restrictions preventing goods from being freely exchanged, also means to level production costs of all European industries. Now, as Italian production costs are notoriously higher than those of other participating countries, they will have to be reduced so that our industries may stand foreign competition... Reductions of production costs which could have been achieved through a better utilization of ERP dollars, can only be obtained through an intensified mass dismissals campaign and through wages reductions...Which means that through the initial error of not having achieved industrial reorganization with ERP dollars and through the present error of the unconditioned compliance to American pressures, the De Gasperi Government let fall on the country and indirectly on the workers the weight of a disastrous economic policy.

In Portugal Mr. Hoffman's speech was summarised by nine out of the eleven major daily papers along with favorable comment. The Diario Noficia, the biggest Lisbon daily, and the Journal die Commercio (economic journal) were particularly active in publishing long, favorable editorial comment on Mr. Hoffman's speech.

In Turkey, the French language Istamboul paper La Republique printed a dispatch from Paris on the OEEC discussion and headed it "The Meeting of the OEEC-Mr.Hoffman asks Marshall Plan Countries to Form One Unified Economic Entity."

In Ankara papers quoted Turkish Foreign Minister Sadak as having made a statement in Paris to the effect that he was hopeful about the discussion on European unification.

Like all the others, the Benelux countries devoted considerable coverage to the discussions. The most characteristic feature of the articles in the Benelux however was the large extent to which these

papers tied the OEEC talks in with European integration in general.

A typical article appeared in the Dutch (independent-liberal) on November 2 when this paper just as had been reported with regard to certain Italian papers (such as La Stampa)- expressed criticism with regard to the position taken by Great Britain in an article under the heading "Divided Europe"

There is once again long and detailed talk over the necessity of greater European unity. In Paris the OEEC has already commenced its conference within the framework of the Marshall Plan, while shortly afterwards the Ministers of the Western European Union and the members of the Council of Europe will consider the questions of unity and harmony.

This frequently lauded European unity is otherwise not going too well. France and Great Britain cannot agree with each other since the British devalued sterling after consultation with Washington without informing their European partners. The French are asking themselves what value the Entente Cordiale and the Treaty of Dunkirk now have. They will even go so far as to try European cooperation without the British for they no longer know what their allies on the other side of the Channel want. Fortunately, the British Minister Cripps has now relieved the situation by stating how far his country will participate in European Economic Cooperation. He said that Great Britain, as the leader of the Commonwealth and of the sterling area, cannot participate in European Cooperation to the full but that it will afford all cooperation insofar as it is not in conflict with this leadership.

This has made it quite clear that Great Britain will not or cannot cooperate in an extensive European unity; will on the one hand hold aloof and on the other will act as a sort of supervising guardian. It also means that in this way very little can, for the time being, come of a united Europe, for this will acquire an entirely different aspect from that which one has so far pictured. And what does Great Britain propose to do? A union with the USA perhaps?

The same British reticence towards the European continent is manifest not only in the economic field but also in the political field. The British Government regards the Western European Union as a military and political treaty which does not go beyond certain fixed bounds of cooperation. The Council of Europe is nothing more than a European super-Parliament in which unity can be discussed but in which it may not be realized. In all Western European organizations Great Britain has, in this way, a finger in the pie, but it does not desire closer cooperation and will, in any case, not yet participate in it.

It is impossible that Great Britain can ultimately hold aloof from Europe in their political and military spheres. The Continent of Europe and England are too closely linked together. What is, after all, "splendid isolation" behind the North

Sea and the Channel in a time of jet-propelled aircraft and heavy bombers? But then again, what is Europe without Great Britain? Therefore, it is of the greatest importance that France and Great Britain should come to an agreement whereby neither of the two countries should have priority over the other, but in which they really go together.

At present there is no country that has the lead in the attempt to bring about European cooperation and unity unless it is America. But the British must bear in mind that if they will not cooperate in this attempt, unity will nevertheless come about and they will ultimately want to participate after all. But who, then, shall have the lead, the French or the Germans? Or who knows, both!

Other Dutch papers gave prominent coverage to the point made by Mr. Hoffman when he pressed for an immediate action. On 2 November, the Amsterdam paper De Tijd (Liberal-Catholic) headed its article "1952 Is Now".

All the major papers in Austria and Western Germany also gave prominent featuring to the talks with specific references to the presence of their own delegations.

Greek papers had little space left for anything except the discussions at the United Nations political committee on the Greek issue. Hence Greece was one country where the Paris OEEC discussions did not enjoy much coverage. Some papers did refer to the new project of Fritalux without offering, however, much comment.

B File

EDITORIAL COMMENT AFTER THE NEGOTIATIONS

Once the negotiations in the Chateau de la Muette had been concluded and actual news interest in the talks and in Mr. Hoffman's speech had subsided, the coverage of the negotiations and of the problems involved therein shifted to the editorial pages of the European press. This change in the approach was expressed not only by the actual location of the articles but also by the fact that the writers no longer dealt with the wording of Mr. Hoffman's speech and the development of the OEEC negotiations but with the problems arising from the talks. The first result was that the European press debated the question of whether European integration would be possible at all to the degree outlined by Mr. Hoffman and by OEEC. The second question was: What would be the means of achieving such unification and what would be the obstacles? It was only several days after the actual conclusion of the negotiations that editorialists in European papers came up with what they saw as the crucial question: would a complete economic integration or Europe solve Europe's problems in the field of hard currency and trade balance?

Although non-communist European papers generally gave wholehearted support to economic integration, many of them agreed with the Parisian daily Le Figaro (rightist-independent) in which the well-known economic editorialist Raymond Aron stated that desirable though European union may be, it does not constitute in itself a universal cure for all the deficiencies in Europe's economy. Mr. Aron and many other European editorialists along with him stressed that even if all trade and customs barriers had vanished, Europe as a whole would still have to face an adverse trade balance and the need to import from non-European sources raw material and equipment for several billion dollars.

This conclusion in turn led many of the serious and analytical European papers to raise the question of what other means and chances Europe has of solving her economic difficulties.

Most of the papers held that increased productivity as advocated by Mr. Hoffman and by many of the leading European statesmen would have to be given first priority. Many papers also mentioned the fact that European export methods would have to undergo certain changes and that proper market research might in some cases go a long way.

Several European papers also mentioned the desirability and the need for American customs tariffs to be cut. An interesting article appeared on 3 November in the Parisian leftist-independent daily Franc-Tireur which expressed its approval of plans for increased productivity but said at the same time that this increase must come about without new waves of unemployment.

B File

In the introduction the author, Jean Rous, said that everybody agreed that the workers' purchasing power has to be increased and that productivity doubtlessly would have to be stepped up. He also said that French productivity was clearly inadequate and that in 1948 an American worker produced five times more than the average French worker. He continued that this increase in productivity should not simply result in higher profits for the companies but should be translated into a raising of the standard of living of those who would carry the main burden of this additional effort.

On the whole it may be said that once the discussions were concluded - and the press of the individual countries did no longer seem to feel the need to defend and stress the country's specific position on a nationalistic level - the approach to the problems raised by Mr. Hoffman was generally sincere and favorable as far as the desirability of economic integration was concerned. Large sections of the European press expressed scepticism with regard to the immediate chances of such projects but they all showed a cooperative attitude in that they raised the public's interest in projects of a more regional nature which, at any rate, would have to be the first step toward general European union. Although such projects as Fritalux were regarded, at the beginning, very ironically even by serious, government-supporting French papers, they are now earnestly taken up even by papers generally criticizing the French government. This attitude is found throughout the rest of the European press.

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COMMENTS IN THE COMMUNIST PRESS

The Cominform mouthpieces throughout Europe showed once again that regardless of the country in which they may be printed, the lines they use in their attacks never vary. In France the leading communist paper L'Humanite charged on 28 October that the OEEC meeting was starting "Amid A Crisis Of The Marshall Plan". The next day the paper headed its article with a question mark: Does OEEC Council Meeting Monday Prepare New Monetary Manipulation? Crisis of Capitalism".

On the next day the paper changed key and attacked the OEEC meeting on the grounds that the "West Reich" had officially joined this "so called European" organization. On the 1 November the headings were "Mr. Hoffman to OEEC Ministers; Open your borders All the Way to American Competition. Mr. Petsche and Mr. Schuman say Okay. No More Dollars Unless....."

On 2 November the paper was even more violent in its article. It charged that the substance of Mr. Robert Schuman's statement had been that French government was ready to take the chances of increasing unemployment in France and of provoking the collapse of certain national industries. The paper elaborated on this charge on 3 November when it reported the end of the OEEC meeting and said that as a result of the threats made by Mr. Hoffman a program of "Crisis, Unemployment and Colonial Banditry" had been adopted. The crypto-communist paper Liberation followed the same lines although its tone was less violent than Humanite's. On 28 October, it said sarcastically "Mr. Hoffman Is Going To Save The Europeans; Fewer Marshall Credits If You Don't Form Economic Groups". On 29 October it said: "Mr. Hoffman's Prophecies" and on 31 October it meant to imply the American predominance by the heading "Mr. Hoffman Will Make the Voice of America Heard". On 1 November the paper reported that the Administrator of the Marshall Plan had instructed the members of "OEEC to Hurry Up and Form a European Economic Union". The next day Liberation reported on British press reactions to Mr. Hoffman's statement and said that the Council of Ministers had adopted the British proposal on the liberation of "50% of European Trade". On 3 November the heading of its article was "OEEC Attempts to Create a Zone of Free Trade."

In Sweden the communist daily Nyddag carried the Reuter report on Mr. Hoffman's speech with a violently hostile comment and under the heading "USA Takes over Hitler's 'New Order' Plan for Europe". In Norway the communist Friheten and in Denmark Land og Folk carried similar articles.

In Great Britain on 3 November the Daily Worker stated that Mr. Hoffman's speech constituted "New Orders from the UAS" and drew the conclusion

The closer unity of Western Europe, the creation of a West European bank, are all measures designed to help U.S. big business to exploit Europe and its colonies.

Churchill and the Labour Party simpletons who support Western Union believe that closer unity in Western Europe would enable them to be more independent of U.S. and more able to shamelessly exploit the colonial world.

U.S. big business does not believe this. Economic unity in Western Europe will, it believes, increase the opportunities of U.S. capitalism as the strongest capitalist Power for exploiting both West Europe and its colonies.

The Rome communist paper L'Unita said on 1 November

Hoffman's Alternative Was: Either Obedience to his "Diktat" or no Dollars

.....His speech was diplomatically moderate in the words, but not sufficiently so as to hide, behind too evident allusions, the sharp accents of the "diktat". The usual compliments were brief and immediately followed by American demands.

....."a single market" has been for some time a Wall Street slogan. Wall Street's movements of capitals and goods on surviving European frontiers are hampered. Hoffman advocated "a zone of free exchanges including 270 million consumers"; with the crisis the United States is now undergoing, this is a colonial outlet that Washington cannot neglect....."

.....The ERP supreme Administrator also pointed out the systems to be followed to achieve the objectives he laid out and the deadline for carrying out the project.....threats in case of non compliance are the classical handcuffs.....either to accept the "diktat" or no dollars.....

and its fellow traveler Il Paese said on the same day

.....To avoid such a disaster (namely failure on the part of 18 ERP participating countries to agree in creating an economic system capable of satisfying the needs of 250 million consumers in Western Europe who should prepare to face 1952) which would involve American economy regarding its export possibilities Hoffman set forth his proposals consisting of four main points.

.....Mr. Hoffman also announced that henceforth American aid will be bestowed according to "merits" rather than actual requirements of the single ERP participating countries. It is not difficult to foresee what such "merits" will be, they will be judged exclusively by the U.S. Government.....

In Belgium the communist paper Lé Drapeau Rouge tried to minimize the importance of the talks at the Chateau de la Muette by stressing that "the military expenses of the Marshallized countries are higher than the amount of American 'aid'." On the same day this paper also charged that Mr. Spaak was making inhuman efforts on behalf of the so-called European Union which in reality was an American war method. On the same page the paper reported on considerable British opposition to European customs union as "demanded" by the United States. On 30 November the same paper accused Mr. Hoffman of rejoicing over the fact that the Belgian people were encountering difficulties.

The propaganda lines used by the communist mouthpieces in other European countries differed only in an insignificant way from those reported above.

Bryan Houston , Director of Information.
Economic Cooperation Administration
P. D. Fahnestock, Consultant

Jan. 14, 1949

Review of operations of Information Service

The attached report is a review of the operations of the Domestic Information Service of the Economic Cooperation Administration from the time of the appointment of Paul G. Hoffman as Administrator through the first six months of the agency's functioning. The report is intended to evaluate the work done during that period and to suggest ways and means for strengthening and expanding that service. The report is divided into 17 parts, each covering a specific phase of the Domestic Information Service. The last two parts are submitted in personal and confidential form pending further study and action.

As far as the Overseas Information Service is concerned, this report covers only those phases of that program within the framework of the Washington operation.

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Part One:

Establishment of Public Information Service

Paul G. Hoffman was notified on April 5, 1948, while in California, that he would be appointed Economic Cooperation Administrator. He flew to Washington the following day to accept the appointment. Confirmation by the United States Senate took place on April 7, Mr. Hoffman establishing temporary headquarters in the Hotel Statler the following day.

On the fourth day following his appointment by the President, Mr. Hoffman took steps to set up the ECA information service, designating Gaston Marque and P. D. Fahnestock as consultants in charge of the program. These men were drawn from organizations with which Mr. Hoffman had direct concern, Mr. Marque being with the Studebaker Corp. and Mr. Fahnestock with the Committee for Economic Development. A press conference was arranged and held within 48 hours of the time of the confirmation of the Administrator. The issuance of press texts and other public information material began immediately.

Temporary headquarters for the public information division were established in the Old State Department Building while the permanent offices were being completed in the Maticco Building. Mr. Marque and Mr. Fahnestock being aided by two secretaries borrowed from other Federal agencies.

In the days immediately following his appointment, Mr. Hoffman met many individual members of the press and representatives of the radio field. These appointments were worked into all hours of the day, some taking place at breakfast, others at luncheon and dinner periods and even still later in the evening.

Among those who were included in this early list of conferences were such well-known newsmen as James C. Austin, Felix Belair, William Chandler, Peter Edson, Edward Evans, Marshall Field, Sterling Green, Walter Lippmann, William Kerwin, Joseph Livingston, Blair Moody, Campbell Phillips, Cranston Williams, Paul Wooton, Clarence Wright, and many others.

One of the first steps taken by Mr. Hoffman to augment with voluntary personnel the service of his own information staff was to enlist the cooperation of the Advertising Council. He laid before Ted Replier, the executive vice-president of the Council, the need for the development of labels which would identify ECA shipments. A task force was immediately assigned for this purpose at no cost to ECA. The advice and help of the Advertising Council was also obtained on the whole public relations problem. Valuable aid was obtained from several professional groups in specialized press fields.

From this early foundation, a gradual expansion and development of the ECA division of information took place.

Part Two:

Information Service Personnel

Hiring of personnel for the ECA information service went forward slowly during the first three months of its operation. It was necessary to proceed in this way for two reasons, first, because personnel ceilings for the public information service had to be established after viewing the overall operation of the ECA program; and second, because more than two and a half months elapsed between the time of Mr. Hoffman's appointment and the passage of the appropriations act by the Congress. It was felt the size of the staff should be determined largely by this appropriation.

During the first two months of the domestic information program, all of its activities were handled by a professional staff of four persons, including the two consultants named previously and two full-time employees, Robert Ruse and Fred Bollmeyer. With the exception of Mr. Marcus, all of these men possessed full, permanent civil service status in the Federal Government. During this period the information service received valuable help from Mr. Hoffman's special assistants, including James Cleary and Samuel Richards. Mr. Hoffman continued to hold press conferences frequently, and was available at all times for small group meetings and individual discussions with representatives of various media.

It was finally determined that there be a ceiling of 34 persons on the Washington section of the ECA information staff. This number was not reached at any time in the period covered by this report. From the beginning, every effort was made to engage wherever possible persons with status under the classified civil service.

Proper recognition also was given to persons with veterans status. There follows as a supplement to this report a list of the personnel employed by the ECA information division as of November 15, 1948, together with their salaries, grades, status, and previous government history. The total amount paid in salaries to the personnel of the Washington section of the ECA information service in the six months beginning April 8 was \$41,726.33, exclusive of consultants' fees and minor items such as persons employed only a few days.

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Part Three:

Applications for Jobs

For weeks following the appointment of the Administrator, the small informational staff was compelled to devote many hours daily to interviews with job-seekers who called in person, and to correspondence and telephone conversations with other similar groups. As the information division began functioning much more quickly than most others, it was assigned the duty of processing all applications in the public relations field.

Of the 396 persons who applied for ECA public relations top jobs, there were 135 who believed they were qualified for positions at GAF-13 and above. The other 261 thought that they were qualified for GAF-12 positions or those of a lower grade. The figures which are given represent only a fraction of the total number of applicants, as hundreds of persons without usable public relations experience who applied for jobs in this field were discouraged, and as a result did not submit formal applications.

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Part Four:

Public Inquiry

During the early days of ECA operation, letters from the public were received at the rate of more than 1,000 a day. These included applications for jobs, requests for information, messages of congratulation to Mr. Hoffman, inquiries about purchasing under ECA, and a great deal of general correspondence. For a time, five men and 15 women were assigned to the task of answering these letters. The staff had been reduced to a much smaller size on November 15, with one man in the information division giving it part-time supervision with a staff of three secretaries. The division was made a part of the office of public information.

The early volume of mail was so heavy that the use of flexible pattern letters became imperative. Several letters of this type were developed to reply to inquiries concerning sales under the ECA program. Those who asked for information about making sales also were sent copies of the booklet indicating how business is done with the Economic Cooperation Administration. It was pointed out in every case that ECA is not a procurement agency, as many persons got this impression from erroneous publicity relative to the agency.

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A special section of the correspondence unit was set up to reply to inquiries from members of the Congress or from persons who wrote to ECA at the suggestion of their senators and representatives. Another special section was used on behalf of Mr. Harriman to handle matters which should be brought to his attention. Such inquiries were held for his consideration when this was warranted.

One of the heaviest volumes of mail was that in handling of pending applications for jobs. Here is a copy of a typical letter written to an applicant:

Your application for a position with the Economic Cooperation Administration is deeply appreciated.

Since my appointment on April 7, 1948, patriotic American citizens have been writing me to offer their services, at the rate of more than a thousand a day. Obviously, I cannot give personal attention to every letter but I am seeing to it that every one is carefully read and classified so that it may be considered as soon as department heads are appointed.

Contrary to the general impression, we shall have a comparatively small staff consisting largely of technicians and experts. One reason why our staff will be small, in comparison with those of other government departments, is that we shall not be a procurement agency. Actual purchasing will be done through private channels, by foreign governments, or through other existing agencies of the United States Government, such as the Commodity Credit Corporation of the Department of Agriculture, the Bureau of Federal Supply of the Treasury, the Quartermaster Department of the Army, etc.

It will be at least ninety days before our staff approaches full strength of several hundred persons.

Thanking you for writing, I am,

Sincerely,

Paul G. Hoffman
Administrator for Economic Cooperation

Many letters were received from persons in Europe who hoped to get individual relief under the ECA program. In many cases these letters had to be translated before they could be answered, this being done in a Division of Administrative Services used by various agencies of government in Washington.

The letter that was used in reply to these inquiries followed this general line:

Mr. Hoffman has asked me to reply to your letter to him telling of your plight and requesting assistance. He is deeply affected by your situation and that of many thousands of others in similar circumstances. It is for this reason that the United States is engaged in this tremendous enterprise to assist the industrial and agricultural recovery of the nations of Europe.

Direct relief to individuals is not authorized in the Economic Cooperation Act.

The idea behind the European Recovery Program is to restore sound economic conditions including an increase in the production of food and other necessities in the countries participating in the program. In the meantime, considerable quantities of food and other goods are being shipped to your country under this program, and the money from their sale is being placed by your government in special funds to be devoted to recovery.

Mr. Hoffman is committed to a policy of achieving as speedily as possible general economic recovery in Europe, and regrets that he cannot directly fulfil your request, or any other for individual relief.

Sincerely yours,

For the Administrator:

George T. Elliman
Consultant on Voluntary Relief

Publication in a few newspapers of erroneous stories that large sums were to be spent by ECA in purchasing liquor for shipment to western Europe brought many hundreds of protests from citizens. It was noted that in some cases many letters would be sent out in a single day from one community, indicating there had been discussion in those localities of this publicity.

Where letters referred to supposed purchases of wine and/or liquor, this reply, with suitable variations, was sent to the person or organization filing the protest:

No requests have been received from the participating countries nor have U. S. funds been allocated for the shipment of wine (liquor) to any of the nations participating in the ECA program. However, wine (liquor) will be shipped by these countries among themselves, from dependent overseas colonies, and from countries which are not included in the program, as has been the historic practice. Wine has always

been an important element in the diet of such countries as France and Italy and its production has been an essential part of their economic and agricultural life. The funds for purchasing wine (liquor) will, however, be in the local currencies of the purchasing countries and it is not expected that any U. S. funds will pay any part of the cost.

There also was a large volume of correspondence growing out of erroneous stories in a small section of the press with respect to the supposed shipment of great quantities of American newsprint to European publications. A pattern letter was developed for this purpose, but in the main individual answers were written as most of the inquiries with respect to the newsprint came from publishers and magazine editors, many of whom were personally acquainted with Mr. Hoffman. A special report on this subject was prepared for the Congress.

As these inquiries were received, they were made the basis of public statements by Mr. Hoffman during his press conferences and in formal releases. Thus additional protests undoubtedly were headed off by having the newspapers and radio commentators tell the real story about the actual expenditure of ECA funds for such items as tobacco, liquor, wine, and newsprint.

Another group of protests was received concerning allocation of ECA funds to the United Kingdom. These letters were inspired by published and radio reports that ECA funds were being used by Great Britain to finance the Arabs in their war on the Jewish state. This was denied categorically by Mr. Hoffman in a press conference, with the result that the press and radio gave the real facts as to this situation and the heavy flow of letters ceased. An appropriate reply was prepared for the written protests.

On one occasion, a Washington weekly news letter declared erroneously that ECA was about to enter into the commodity purchasing business. Although this story was without foundation, it resulted in more than 2,100 letters of inquiry being received by ECA in the week which followed the publication. A pattern letter was developed for reply to these inquiries and was used in answering them, with suitable variations depending on each letter.

In the week following announcement of publication of the ECA booklet for businessmen, more than 1,600 requests for it were received. These requests continued and were acknowledged either by sending the book while the first edition lasted or by a letter which said the edition was out of print and that the request would be filled when subsequent editions were printed.

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Part Five:

Service to the Congress and Other Agencies

The need for providing full and accurate information to the Congress was recognized immediately upon the appointment of the Administrator. Arrangements were made whereby the so-called Watchdog Committee would receive all press releases and other informational material daily or more frequently in some instances.

Other committees of the Congress received releases regularly. They are: the House Appropriations, House Banking and Currency, House Foreign Affairs, House Public Lands, Select Committee on Newsprint and Paper Supply, the Senate Committee on Appropriations and Foreign Relations, and the House Coordinator of Information. In addition, releases were dispatched to various individual members of the Senate and House of Representatives upon request. As described elsewhere, a special unit was set up to handle Congressional inquiries.

Requests were received for bulk distribution of these texts as follows: National Press Club 100, Department of Agriculture 165, Department of Commerce--Office of Internal Trade 70, U. S. Army 50, State Department Press Room 25.

Within the agency itself, press releases were delivered to about 100 individuals. Copies of speeches by Mr. Hoffman were sent to all branch chiefs and other personnel of top rank within the agency. The transcripts of important press conferences also were made available to persons in key positions in the agency.

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Part Six:

Mailing Lists

Upon the establishment of the information division, recognition was taken of the Federal regulations applying to the unsolicited mailing by government agencies of news texts. A system was adopted under which press releases and other informational material would be sent only to individuals and organizations requesting such service. Where individuals or organizations requested that they be placed on the mailing list, this was done immediately, requests being made in person, by telephone, telegraph, and mail.

It was recognized there would be considerable waste if all press releases were sent to the entire mailing list, especially as it expanded. For that reason, 27 sections of the mailing list were established and requests for press texts were placed in those various categories. Thus a publication or a group interested primarily in iron and steel would receive only texts devoted to or relating to that commodity.

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The following is a tabulation of various sections of this list, as of November 15, 1948:

<u>Number on List</u>	<u>Description</u>
514	Exporters - interested in all authorizations
193	Shipping and trucking firms; airlines, port authorities, packing for shipment; public utilities
136	Railroads
27	Coal
41	Petroleum
761	Iron and steel; nonferrous metals; machinery equipment and industrial supplies
166	Agricultural and industrial chemicals; chemical dyes; fertilizers and feeds; paint, varnish, lacquer, and inedible oils
114	Lumber, pulp, paper and wood products
39	Rubber products
108	Medical, hospital and dental supplies; sanitation and water purification supplies; drugs and soap
104	Consumer goods; household and office furnishings; glass products and plastics; miscellaneous
152	Textiles and clothing; burlap; felt products; textile waste
55	Tobacco
316	Foods and agricultural seeds
27	Hides, skins and leather products; hemp and sisal
163	Publications, correspondents and news agencies
396	Attorneys, consultants, banks, libraries, general trade associations, foreign government agencies
112	Government agencies in Washington (unfranked envelopes)
24	Government agencies in Washington - duplicate copies (unfranked envelopes)
90	Foreign addresses including duplicates - Airmail
578	Specific requests for all releases
98	Specific requests for all releases - duplicate copies
26	Exporters - duplicate copies
25	Railroads and shipping - duplicate copies
12	Everything on China
24	Specific requests for all releases - Airmail
67	Requests for regulations only

On the date mentioned, there were 4,469 names on the list and it was being expanded rapidly. A heavy distribution of press texts took place daily in the ECA news room to the wire services, newspapers, and other media. Multiple copies were distributed to various government agencies which requested them. When this report was written, the total distribution of more important releases issued by ECA exceeded 7,000.

In the early stages of operation of the information division, mailing was handled in the ECA news room. The volume soon rose to such a point that this was impractical and arrangements were made whereby the Government Printing Office took over this service. Addressograph plates were made to hold down to the minimum manual operation. Where press releases were received in the Government Printing Office before 2 p.m. they were mailed the same day. Those received after that hour were mailed the following day.

The efficiency of this service made possible prompt use of news texts by interested media, usually within 48 hours after their release in many sections of the country. This specialized service supplemented the necessarily brief coverage by the wire services and other media.

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Part Seven:

Service to Business Publications

Through the cooperation of Paul Wooton, President of the National Association of Business Press Editors, ECA news releases were received and studied in his Washington office, District of Columbia headquarters of this organization. Mr. Wooton and his staff considered the various releases and then called to the attention of the 64 Washington correspondents served by his association. This was done through a weekly bulletin issued by Mr. Wooton's office.

This service also had national aspects in that Mr. Wooton called to the attention of the entire membership of his association the ECA program and the various aspects of particular interest to the business press. Mr. Hoffman spoke to this group and to the national officers of the International Council of Industrial Editors representing more than 2,200 of the leading house organs of the country.

Both groups promised continuing use of and comment on ECA material.

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Part Eight:

Service to the Labor Press

Need of a specialized press service for labor publications of the nation was recognized, its establishment taking place under the direction of the domestic labor advisors, Mr. Golden and Mr. Jewell. Two men skilled in providing the labor press with usable news were engaged as staff members. Mr. Marion Hedges representing the A. F. of L. and Mr. Ted O. Silvey the C.I.O.

Both men were qualified by long experience in this field. Mr. Hedges in his capacity as editor of publications of the A. F. of L. Electrical Workers Union and Mr. Silvey as a public relations representative of the C.I.O. in Ohio and later in Washington.

The new unit, operating with full autonomy, served 900 labor publications throughout the country, working through established news services such as the Labor Press Associates, the American Federation of Labor Clip Sheet and the Federated Press. The use of these news agencies resulted in substantial savings to ECA as well as effective distribution of press material.

There are three labor representatives on the Public Advisory Board. Thus the labor press service had much news at its disposal, this coming from these representatives on the Advisory Board. Talks delivered by Mr. Jewell and Mr. Golden also were newsworthy.

Speech texts for labor publications were supplied in advance when these two men were heard and reports of their studies overseas also were made available to the labor press. Mr. Golden and Mr. Jewell held a press conference on August 18 immediately after their return from a mission overseas.

Visits of German and Austrian labor editors to this country were welcomed by the labor press section and these representatives of overseas newspapers were given information about the whole ECA program.

Perhaps the greatest single contribution which the labor press service made in its field was the publication of an ECA labor news-letter. The first issue appeared in October 1948, and bore the name "Trans-Atlantic." Mr. Hoffman had a foreword in this edition which contained valuable information about actual operation of the Marshall Plan and labor's interest in it.

Still another service was that relative to exhibits. Special displays of this type were prepared for both the A. F. of L. and C.I.O. conventions held during November. A three-panel display showed how European labor could profit by cooperation in the ECA program. Mr. Hoffman and Mr. Harriman spoke at the A. F. of L. national convention in Cincinnati, while the labor press section had a personal representative at each of the gatherings.

The labor advisers, as well as members of the labor news section, either wrote articles or made material available in many instances. For example, the widely read publication, "Labor and Nation," devoted much of its space in its September-October edition to American labor and the EAP. The entire edition was prepared with the editorial collaboration of Mr. Hedges.

It was apparent from a study of clippings that much of the material supplied by this section found its way into labor publications. An exhibit of news items and editorials was being prepared when the survey was made, to show graphically the reaction of the labor press to this specialized type of service.

Part Nine:

Booklets for Businessmen and Tourists

One of the early activities of the domestic information service was to get out two simply worded ECA booklets--one for American businessmen and the other for tourists going abroad. The difficulties of producing these booklets were readily apparent. In the first place, the booklets of necessity had to deal with the operations of several government agencies other than ECA. The services performed as part of the European Recovery Program by the United States Department of Commerce, the State Department, the Treasury Procurement Service, the Department of Agriculture, and the Army Procurement Services had to be described. The text also had to be cleared with affected agencies.

Since the ECA was a new agency when the booklets were written, the informational personnel did not immediately have all of the facts with respect to its plans and methods of operation. However, the two booklets were available early in August.

The businessmen's booklet contained authorizations by countries and commodities through June 30, together with a statement of procedure to be followed in making purchases. A great deal of information on purchasing missions was contained therein, together with the personnel and addresses in each case. The field offices of the United States Department of Commerce were listed. ECA publications were available in these offices, also such information about ECA since it had no office in the continental United States outside of the City of Washington.

The businessmen's booklet contained a summary of import controls in the various countries entitled to receive ECA funds. Regulation No. 1, which had been issued by ECA, outlining its method of operation, was contained in the booklet. These 25,000 booklets were done by the Government Printing Office at a production cost of \$2,052.

The booklet for tourists was much simpler, designed to give Americans traveling abroad a general knowledge of the plans and policies of ECA. It was felt that these travelers would be subjected to many inquiries about ECA while overseas and that the booklet would equip them to give intelligent replies. Lists of leading ECA personnel appeared in the booklets as did the identifying label which had been adopted by that time.

Before the businessmen's booklet was issued, there had been notice concerning it in the press of the nation. The result was that more than 12,000 individual orders for the booklet were on hand. As soon as the booklet appeared, many thousands of additional requests were received. The supply was exhausted within a few days.

Five thousand copies of the tourist booklet were issued and these too were requested by interested citizens within a few days after becoming available.

The total cost of the 30,000 booklets, including the two separate editions, was less than \$2,500. The job was delivered in less than ten days after the final clearance of copy had been obtained.

With the first edition of the tourist booklet exhausted very quickly, plans were begun immediately for a second edition of 100,000 copies. This edition included a considerable revision of the original text and was available for public distribution on November 5, 1948. At that time, in excess of 57,000 orders for the booklet had been received from travel bureaus, steamship lines, air lines, and other interested groups.

The second edition of the businessmen's booklet was on the press when this report was written. This edition brought up to date statistics appearing in the first edition and gave a good deal of information not available earlier.

At the same time the official booklets were issued, various other reports by private individuals and groups were published. Information for these was provided by the domestic news service and many thousands of such booklets were distributed by trade associations, banks, and other agencies. Two weekly news-letters, carrying ECA news and interpretations, were founded soon after the agency was established. These publications, which had no official status, were offered for sale and built up substantial circulations.

When this report was written, a simply worded booklet of primer type was being prepared for printing. This booklet, when completed, will illustrate graphically just how the Marshall Plan operates, how ECA funds are authorized and allocated, and what results are sought from the investment of American dollars in the European Recovery Program.

The labor information division had begun publication of a news-letter and clip sheet intended for international and local unions, this being described in a separate section of this report.

There were prepared at various times summaries and reports of progress which were submitted to the ECA Public Advisory Board at its regular meetings. These were done in graph and chart form, serving to illustrate the methods of operation within the organization and the progress being made in its program. Copies of these texts were made available to the press and to others who were interested in mastering the details of the administration of Public Law 472.

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Part Ten:

Motion Pictures, Television, and Transcriptions

The informational activity in these fields was limited up to the time of the writing of this report. The radio made wire recordings of many of Mr. Hoffman's early press conferences. Film producers worked into their news weeklies such shots as the departure and arrival of the first ECA ships carrying

relief cargoes. Mr. Hoffman made a special movie short supporting CARE; while the March of Time engaged in production of one of its releases featuring the ECA program as an American answer to Stalin. This film was released in December 1948.

During Mr. Hoffman's appearance at the Herald-Tribune Forum in New York, CRS televised his discussion of European recovery.

Fifteen-minute transcriptions were made for Station WRUL and for the State Department shortly after Mr. Hoffman was appointed as Administrator. These transcriptions were beamed throughout the world by these two nonprofit broadcasting services.

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Part Eleven:

Speakers' Bureau

The development of an adequate speakers' bureau presented a difficult problem. It was not until several weeks after the Administrator was appointed that even the higher officials within the agency were able to study the entire act, complete their organizations, and thus speak authoritatively on all its phases. Another limiting factor was the small number of personnel available and the pressure for their time. As a result of this situation, early requests for speakers were discouraged.

It was recognized however that the public was entitled to know about the program and also to have high-ranking executives describe it when gatherings of citizens warranted such action. Mr. Hoffman undertook the heavy part of the load, making the following addresses in the period designated:

May 20	Committee for Economic Development, New York	Address
June 6	Notre Dame University Notre Dame, Indiana	Commencement address
June 10	Harvard University Cambridge, Mass.	Address
Sept 2	University of Chicago Chicago, Illinois	50th Anniversary of School of Business
Sept 9	Washington Trade Association Executives Washington, D. C.	Luncheon
Sept 14	National Association of Magazine Publishers Spring Lake Beach, N. J.	29th Annual Banquet

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Oct 10	Freedom House New York	Broadcast at noon "Community of Nations." Text of broadcast given at dinner.
Oct 14	Association of Radio News Analysts, New York	Luncheon
Oct 14	New York Board of Trade New York	Address
Oct 18	New York Herald-Tribune Forum, New York	Address
Nov 5	Chicago Ass'n of Commerce and Executives Club Chicago, Illinois	Address

Mr. J. J. Madeworth, Special Assistant to the Administrator, also filled many speaking engagements and appeared before some of the leading industrial, editorial, export, and other groups in the country. Other staff members addressed specialized audiences. For example, Mr. Syran talked on transportation to persons in that field of business. Mr. Hoffman held many informal conferences and addressed several groups of editors. He spoke off the record before the National Association of Business Paper Editors, also to the officers and directors of the International Council of Industrial Editors, providing them with background material for future use.

The speakers' bureau was placed under the supervision of the Director of Information late in 1948.

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Part Twelve:

Press Use of ECA Material

As an evidence of the continuing interest in the ECA program by the nation's press there may be cited figures showing a single week's allocation of space to this topic in two standard-size morning newspapers in New York. The following tabulation was made during the week beginning Oct. 17, which was approximately six months after ECA began to function.

During that period the New York Times carried a total of 59 items and editorials about ECA, these occupying a total of 659 column inches. In the same period, the Herald Tribune carried 35 items and editorials, occupying a total of 545 column inches.

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Even more extensive use of material was made in such papers as the New York Journal of Commerce. The tabulation for a single day chosen at random during the week of October 7 showed that newspaper used 15 items and a total of 291 inches, all having ECA as the subject or being business interpretations of the agency's program. Several special sections were printed by large newspapers with the ECA program as the central theme.

In such cases, the news items were based on press releases by ECA, interviews with persons in its organization, or on interpretations of regulations which ECA had issued. The editorials dealt with a wide variety of subjects, but in the main centered around the actual operation of the overall ECA program.

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Part Thirteen:

Overseas News Service

The overseas news service, established under the direction of Mr. W. Averell Harriman, was from the beginning an almost completely autonomous unit, except that it was provided with certain basic informational material by a small unit headed by Mr. Robert Ruse in Washington. The public information men named by the various mission chiefs apparently served in a similar autonomous manner, with the result that little data are available as to the policies, plans or programs of the overseas news division and its mission information chiefs.

It was impossible, therefore, to attempt a fair evaluation of the overseas information service as of November 15.

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Part Fourteen:

Department of State Cooperation

From the very beginning of the operation of the ECA press division, there was cooperation by the information services of the State Department. The United States Information Service, as it is known overseas, had a full-time reporter in the ECA press room, a member of the staff of the State Department's International Press and Publications Division. Its coverage included an analysis of press releases, attendance at press conferences, and other news developments at ECA. Stories originated in ECA were telephoned to the International Press and Publications Division's Washington desk which in turn channeled them to the USIS press service and to the Voice of America.

The Voice of America had a teletype to the VOA studio in New York City. Its press services included a variety of operations, one being a wireless bulletin, a six-day-a-week summary of about 7,000 words of all U. S. Government news. This summary was sent in day and night editions to about 75 USIS offices all over the world, Morse wireless being used for this purpose. The wireless bulletin was supplemented by various regional bulletins designed to be of special interest in areas such as Western Europe, the Far East, and Latin America.

Consequently, an announcement of one day's ECA procurement authorizations might get only a line or two in the wireless bulletin but could be carried in full in the European area bulletin. In the same way, a breakdown of the Latin American sources for Marshall Plan purchases would be carried extensively in the Latin American bulletin. The Far East bulletin would carry stories on the China Aid Program.

The Voice of America used ECA copy in its general and special area broadcasts. A daily feature from the INP reporter was a 250-word ECA round-up written at 10 o'clock each morning. This highlighted ECA news of the previous day and in some cases told what additional developments might be expected. The round-up was originated at the request of the Voice of America executive staff.

Policy liaison between ECA and the USIS was maintained through Robert Ruse of ECA and either William Stone or Lloyd Lehrbas in the office of Assistant Secretary of State George Allen. In this way policy matters were discussed before an attempt was made to release news relative to the European Recovery Program.

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Part Fifteen:

Other Evaluations of Service

The foregoing appraisal of the ECA domestic information service was based on a study of thousands of pages of reports, records and informational texts. The factual record can be supported by much data. In addition, the writer of this report conferred with many persons who were users of the ECA public information service. Their comments, being made in many instances in confidence, and representing personal opinions, were not made a part of this report but were submitted as a personal and confidential memorandum.

Since the evaluation of service disclosed obvious weaknesses in the program as well as strengths, and because some of these weaknesses may now have been overcome or reduced in their more serious aspects, there is offered for your consideration a second personal and confidential section. This is an evaluation of both strengths and weaknesses of the program and suggestions as to how the latter can be overcome.

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At a subsequent date it should be possible to make these recommendations, in so far as they are adopted or modified, a part of the general report. Further discussion of this survey can take place at your convenience.

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END OF GENERAL REPORT

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Appendix A

<u>Name</u>	<u>Join Date</u>	<u>Grade & Salary</u>	<u>Status</u>	<u>Previous Government History</u>
Chas. H. Bernhard	9/20/48	CAF-13 \$7432.20	Permanent	Agriculture, Soc. Sec. Bd.
Fred J. Bollmeyer	7/1/48	CAF-14 \$8509.50	Permanent	USCS, WAC, Nat'l Housing Adm., Labor VA
Keith Botterud	9/9/48	CAF-12 \$6235.20	Permanent	
Fay Brisk	5/24/48	CAF-3 \$2949.72	Probationary	WAA, Dept Army
Martha L. Condon	6/1/48	CAF-5 \$3351.00	Permanent	War Dept, CAB, Int. Rev., Soil Conservation Service, OWI
(Terminated 10/18/48)				
Mark H. Cornell	6/24/48	CAF-13 \$7432.00	Temp-Indef	WAA, RFC
Ann Cottrell	10/6/48	CAF-13 \$7432.20	Temp-Indef	None
Robert Dunne	8/30/48	CAF-9 \$4479.60	Temp-Indef	War Dept
Ruth A. Essington	4/26/48	CAF-5 \$3100.20	Permanent	WAA
Mary Joan Fox	10/19/48	CAF-5 \$3727.20	Temp-Indef	Dept Army, Dept Navy
Anna B. Foadick	7/11/48	CAF-2 \$2280.00	Temp-Indef	None
(Terminated 9/11/48)				
Eleanor Gault	8/2/48	CAF-5 \$3100.20	Permanent	Dept Army, Air Forces, War Dept, Off Housing Expediter
Miriam Hahn	5/12/48	CAF-3 \$2498.28	Temp-Indef	VA
Elizabeth Hanna	6/1/48	CAF-11 \$5482.80	Permanent	Dept State, RFC
Laura Hayden	5/13/48	CAF-4 \$2724.00	Probationary	Alien Property (now Treasury)
Ann Henning	9/22/48	CAF-3 \$2498.28	Temp-Indef	None
Leo House	10/6/48	CAF-14 \$8509.50	Temp-Indef	Off. Govt. Reports, Coordinator of Information (became OWI)
Bryan Houston	7/13/48	CAF-16 \$15,000	Emergency Indefinite	All previous govt employment in military service
Robert E. Huse	6/27/48	CAF-15 \$10,305	Permanent	SSB, Off Facts & Figures, OWI, Foreign Economic Admin, SSA

<u>Name</u>	<u>EOB Date</u>	<u>Grade & Salary</u>	<u>Status</u>	<u>Previous Government History</u>
Kenneth S. Jones	7/11/48	CAF-5 \$2949.72	Temp-Indef	None
(Resigned 9/11/48)				
Mary Joy	5/3/48	CAF-4 \$3024.96	Permanent	Treasury
(Transferred to foreign service 10/18/48)				
Betty J. Lawson	8/5/48	CAF-3 \$2874.48	Probationary	WAA, WPB, Surplus Property Adm.
Agnes Lightfoot	8/23/48	CAF-5 \$3351.00	Permanent	WAA, WPB (formerly RPO)
Barbara A. Mack	8/3/48	CAF-6 \$3476.40	Temp-Indef	Dept Army, OPA
Frank H. McConnell	10/22/48	CAF-13 \$7432.00	Temp-60 da	Dept State, RFG, OPA, Dept Army
Douglas Parmentier	8/17/48	CAF-15 \$10,305	Temp-Indef	All previous govt employment while in military service
(Resigned)				
Victoria Russell	4/19/48	CAF-5 \$3225.60	Permanent	CSC, Nat'l Housing Agency, Off Foreign Liquidation Comm, FEA, ICC, Navy, State, Interior
(Transferred out 8/8/48)				
Anne Schmidt	5/3/48	CAF-3 \$2724.00	Temp-Indef	Library of Congress
Hilla Schroeder	9/1/48	CAF-13 \$7432.20	Permanent	WAA, WPB, WMC, US Capitol
Glenda Smithson	8/22/48	CAF-3 \$2498.28	Temp-Indef	None
(Resigned 9/2/48)				
Dorothy Wehrauch	4/19/48	CAF-7 \$4479.60	Temp-Def	Soc. Sec. Adm.
William Westlake	6/17/48	CAF-15 \$10,305	Emergency Indefinite	War Dept, Capitol
Genevieve White	5/13/48	CAF-3 \$2498.28	Temp-Indef	Dept Army
Jack L. Solether	6/28/48	CAF-2 \$2284.00	Temp-60 da	None
(Resigned 8/17/48)				
Elinor Wolf	10/18/48	WAE Consultant \$12 per diem		Foreign Economic Adm.
P. D. Fahnestock	4/13/48	WAE Consultant \$50 per diem		SSB, TFA, WMC, OWI
Gaston E. Marque	4/10/48	WAE Consultant \$10 per diem		None
Jewell Wilson	11/3/48	CAF-6 \$6103.40	Permanent	WAA, WPB, HOLC, Fed. Home Loan Bank Bd.

Part Sixteen:

Personal and Confidential

Press Room Evaluation of Information Service

The following evaluation of the domestic news room service followed discussion with wire service representatives and principal correspondents assigned to cover ECA. The report was made without direct or implied criticism of any individual, but merely expressed the feelings of those in the press room with respect to the kind of service that was being given at the time it was written.

The correspondents felt that the factual reports issued by the news room were satisfactory. In the case of appointments, all data contained in the various releases appeared to have been checked carefully and the releases were said to be both adequate and accurate.

The establishment of a daily report of commodities purchased was pleasing to the news writers. The same was true of the texts containing other information, especially that usable on business and financial pages. The correspondents had the highest praise for Mr. Hoffman's press conferences and said they reached a standard equal to those of any other federal official in Washington.

The criticisms listed hereafter were based on reports from the correspondents. No doubt there were circumstances over which the news room personnel of ECA had no control and which were responsible in part at least for these objections. The principal complaint of the news writers was that too much happened within ECA that was not reported to the press. It was pointed out that a great many stories broke every week and appeared exclusively in such publications as the Journal of Commerce, the New York Times, and others, which were not available to the news writers generally.

The claim was made that this was not due to superior reporting on the part of these publications but rather to the fact--if such it was--that a great deal of correspondence went to trade associations, exporters, and private individuals from high officials in ECA. The reporters felt that this correspondence, especially that with trade associations and exporters, found its way into the offices of the Journal of Commerce and other specialized publications. They also claimed that some ECA personnel gave news directly to favored press men and commentators without channeling it through the ECA information division.

Under such circumstances, it was easy for the reporters representing these special publications to write stories which were entirely factual. The general reporters in the press room said this was especially true in such fields as grain, cotton, and tobacco. They also contended that when these stories appeared they were slanted to represent the views of individuals within ECA rather than those of the administrator or the agency as a whole.

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There was another general complaint that too much RCA news broke first in Europe and then filtered down to this country through special dispatches from news writers of the U. S. press. In support of this claim, it was pointed out that the first stories with respect to reparations came out of OREO in Europe and that in numerous other instances the Washington news room was scooped by several days through dispatches from overseas although the basic material must have originated in the Washington RCA office.

The reporters felt that the RCA headquarters was not being covered by the news room in anything like an adequate manner. They contended the domestic division staff was kept busy with functional duties and with the production of materials which were used largely for internal consumption within RCA. They based this statement on their daily contacts with RCA news room personnel and observations of the materials which were produced for internal use. They believed that even if there were no expansion in existing personnel there could have been much more complete coverage of the building by the domestic news room and that a great deal of usable material would have resulted.

With respect to Mr. Hoffman's speeches, the news room was anxious to have this text as far in advance of delivery as possible. They claimed service of this type was generally unsatisfactory from their standpoint.

The reporters said they would like to have interviewed all mission heads when they reached this country, either at the time of their arrival or when they planned to return. They liked the idea of informal conferences with heads of the various divisions and would like to have these increased. One of the most general objections was that on several occasions exclusive stories appeared in the New York Times and elsewhere which correspondents tried to check but, according to their claim, they were unable to obtain either an affirmation or a denial of these reports for periods ranging up to as much as 24 hours.

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Part Seventeen:

Personal and Confidential

Conclusions and Recommendations

On the basis of the foregoing chapters, the following conclusions were reached. They included first, a summary of points in which the domestic information service was strong; second, those in which weaknesses appeared; and, third, steps which might be taken to overcome these weaknesses, also to expand and strengthen the entire service.

B File

I. Strong Points in Program

(a) The domestic information program was organized speedily, it began to function quickly, and in general it was operated effectively and economically. Records from your office indicated that the entire expenditure for salaries, except for consultants' fees and some minor items such as employment of short-term personnel and payment for overtime, during the first six months of operation was \$41,726. This compared with an early estimate that a minimum expenditure for such salaries would exceed \$150,000 annually.

(b) From the beginning of operation of the service, there was close adherence to Federal statutes, customs and regulations with respect to the hiring of personnel. Wherever possible, persons with civil service status were hired. There was due consideration of veterans' rights for jobs in ECA. Postal regulations were observed in the distribution of press texts and other material. In general, the Domestic Information Service stayed well within all prescribed boundaries of operation as a Federal government agency.

(c) Adequate information concerning the ECA program was provided for the Congress and its committees, for all interested United States agencies of government and for foreign countries having direct concern with the Marshall Plan. In doing this, ECA utilized the information services of other Federal departments with increased efficiency and reduced cost to ECA as the result.

(d) Heavy correspondence with the agency, due to its being called upon to administer a new program, was well handled with mail, telephone, and personal calls being disposed of in an efficient and systematic manner. A correspondence unit, which at times answered more than 10,000 letters and telephone calls weekly, utilized well-written pattern letters in its operations while giving full consideration to inquiries demanding specific or individual replies. The early production of simply worded booklets for businessmen and tourists made possible clear answers to queries with a minimum use of ECA staff time.

(e) The early development of mailing lists by categories resulted in adequate service being given to publications and other media in the fields of commerce, industry, and government, and at minimum cost to the agency.

(f) Special service was arranged for various press groups such as labor, business, etc. The labor press service record was an impressive one, while the utilization of organized groups of business editors also helped to hold down the cost and increased the effectiveness of service in this field.

II. Weaknesses in Program

At the end of the period covered by this report, weaknesses in the program still appeared and are now discussed in this report in the same manner as in evaluating strengths.

B File

(a) Press men assigned to cover ECA said the domestic information service did not give full coverage to developments within the agency and that many stories of interest leaked out to individual newspapers or syndicates. They felt that much additional text of a usable nature would result if there were more intensive and better organized coverage of the Washington ECA headquarters by its own information personnel. A second complaint of the press was that there were numerous instances of what it termed unwarranted delays in getting replies on hot news stories and controversial matters.

(b) There was similar complaint with respect to ECA news from overseas. The press room expressed dissatisfaction with what it termed the lack of adequate reporting as to the progress being made through the use of ECA funds. There is ample evidence to indicate that Mr. Ruse has made repeated efforts to obtain this sort of material and service from the overseas information division and its various missions, but up to November 15 there had been little progress toward such a goal.

(c) During the period covered by the report, little was done to provide motion picture films, transcriptions, and media that could be used to tell the story of ECA, especially overseas. A picture booklet also was an evident need but was started shortly after this report was written.

(d) The news room was without an adequate file of pictures, progress reports and other data showing accomplishments overseas as a result of ECA expenditures.

(e) Strengthening of the speakers' bureau was an obvious need.

(f) A well-organized program to train all levels of the domestic information staff appeared to be needed in order to assign employees to various jobs and to enable those at the lower salary grades to take over much of the functional work using time of writers and professional personnel.

III. Proposals for Improved Service

(a) With the strong foundations described in detail in the report, it appeared that certain steps should be taken to overcome the weaknesses. By placing the news service on a city-desk plan, much additional information can be obtained from day to day.

(b) The mere assignment of news room personnel to cover the building will not assure an adequate service to the press and other media. There is basic need for a directive from Mr. Hoffman or Mr. Bruce to the entire ECA organization, especially those in key positions. Such a directive should say that the news room is to be advised promptly of any developments of interest, that key personnel in the various divisions be available to the news room at all times for individuals or group meetings with the press and that the practice of handing out important stories to individual reporters without knowledge of the ECA news room must stop. This is just as important as coverage of the building itself and the two proposals should be considered jointly.

B File

(c) The lack of adequate reports from overseas obviously involved to a very large extent the operation under the direction of Mr. Friendly and Mr. Huse and therefore strength can be developed only with their cooperation and approval. Here too what is said in the preceding paragraph applies with equal force.

In view of the continuing demand for improved service in this field, it would be well to consider the assignment of a writer in the Paris office of ECA with that person serving as a special assistant to the Director of Information in Washington. If this were done, it would be the primary rather than the secondary responsibility of this writer to supply continuing news reports on overseas activities for distribution through the ECA news room in Washington. As a Special Assistant to the Director of Information, this writer would have complete independence of action although his activities would, of course, be subject at all times to proper clearance with the Special Representative of the Administrator in Paris and his information chief.

(d) With the establishment of the ECA program in Korea, there is afforded an opportunity to install at the very beginning an information service profiting from experiences gained in other countries covered by the Marshall Plan. To operate such a program there should be appointed by the head of the ECA Mission to Korea an information officer or there should be designated to act in this capacity, if only on a part-time basis, a member of the Mission's staff. The person thus designated would have a dual capacity, first, to assist the head of the mission in an educational and informational program in Korea, with respect to ECA; and, second, to prepare for the agency's Washington office a continuing report of how ECA funds are used and what results are obtained from this investment. This record should be both verbal and pictorial, and should include frequent stories of progress sent directly from Korea to the news room in Washington. The writer or person named to fill these duties should have a proper indoctrination in the Washington headquarters of ECA and should be administratively responsible to the mission head as are other members of his staff.

(e) Proper steps should be taken to correct weaknesses outlined in the previous portions of this report. Discussions subsequent to November 15 have indicated that numerous constructive steps already have been taken under your direction to overcome some of the weaknesses. Further study doubtless will reveal many others which can be taken to strengthen the ECA information policy, organization, and administration of program.

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B File

May 9, 1947

Administration Now Shifts Its Emphasis on Foreign Aid

Economic Reconstruction of Western Europe Now Held Best Bar to Soviet Expansion

By JAMES RESTON

Special to THE NEW YORK TIMES

WASHINGTON, May 8—For the last eight weeks the Truman Doctrine has been discussed primarily in strategic, political and ideological terms. But today both Secretary of State Marshall and his chief assistant, Under-Secretary Dean Acheson, set Mr. Truman's words to a new tune.

"Since becoming Secretary of State," General Marshall wrote to Representative Robert L. Doughton, Democrat of North Carolina, "I have spent most of my time in international political negotiations. This experience has reinforced my conviction that enduring political harmony rests heavily upon economic stability. In no other way can we create an economic and social environment free from the unrest in which political instability is bred."

"When Secretary of State Marshall returned from the recent meeting of the Council of Foreign Ministers in Moscow," Mr. Acheson told his audience in Cleveland, Miss., "he did not talk to us about ideologies or armies. He talked about food and fuel and their relation to industrial production, and the relation of production to the organization of Europe and the relation of the organization of Europe to the peace of the world."

It was no accident that these two statements appeared today on the same theme. The Administration is not happy about the emotional response here and abroad to the military and ideological aspects of the Truman Doctrine. Consequently, a conscious effort is being made now to emphasize the positive economic problems of reconstructing Europe rather than the military and ideological program of blocking Russian expansion and Soviet communism.

The Best Barrier

The Administration still has the same objective. It has not wavered in its sincere belief that Soviet expansion and infiltration must be stopped, if necessary by arming other nations in key strategic areas such as Greece and Turkey.

But it is increasingly convinced that the reconstruction of a sound democratic economy west of the Stettin-Trieste line is the only really effective barrier to expanding communism and it now is beginning to emphasize that theme.

This change of emphasis is clearly illustrated by a study of the speeches delivered by General Marshall and John Foster Dulles, after their return from Moscow, and by Mr. Acheson today. Of the three, Mr. Acheson is the only one who even mentioned Greece and Turkey, and he touched on them only in passing on to the central problem of the economic reconstruction of Germany and the rest of Western Europe.

"If our joint administration can pump vitality into Western Europe," Mr. Dulles said, in emphasizing the point, "that will bring about more competent administration elsewhere. We will have achieved, by force of example,

what we could not achieve by persuasion at Moscow."

This trend toward the reconstruction of Western Europe as the main task in promoting peace already was evident late last year when the United States and British zones in Germany were unified. It was deflected into the Eastern Mediterranean and into an ideological argument by the necessity of taking a decision about Greece and Turkey.

Fear of Collapse Grows

But the failure to reach an agreement on Germany and Austria at Moscow and the fear that Congress might approve the Greek-Turkish program and reject the Government's plans for Western Europe have brought the Administration back to the West with a shock.

There is far more apprehension in high quarters about the possible collapse of the economy of Western Europe than has been acknowledged in the last few months.

Although the public debate has centered on Greece and Turkey since the President enunciated his doctrine eight weeks ago today, the private talk among our officials has been about how the United States can help get industrial, democratic Europe on its feet as a unit strong enough to trade with the United States and block Soviet expansion.

Even intense Republican partisans are not saying that this shift in emphasis leads support to the charge, made by some persons, that the Administration has been engaged in a devious scheme to maintain political power and office at home.

It means simply that, to attain its objective—namely, the preservation of peace and free institutions in Europe, and the preservation of full employment at home—the Administration has come to realize that it was placing too much emphasis on a broad, ideological crusade and not enough on the practical, economic tasks of reconstructing a strong Europe.

All Forms of Appeal Used

Unfortunately, it is not so easy to switch the mood of Congress and the country. The Administration has centered its primary appeal in the last eight weeks on aid to Greece and Turkey, as if that were the most important aspect of the reconstruction problem. To do this, it has used all the dramatic appeals at its disposal, including secret meetings at the White House and the President's address to a joint session of Congress.

Now, however, the emphasis is shifting. The need to support the Administration on its Greek-Turkish program still is recognized as being vital, since the President is committed to it before the world.

But those who went to Moscow have come back convinced that the decisive testing ground for peace and a democratic Europe is in the West, and that the West cannot be sustained by anything but sound economic reconstruction.